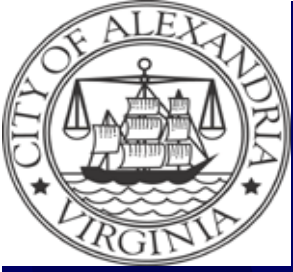


# Budget Outlook

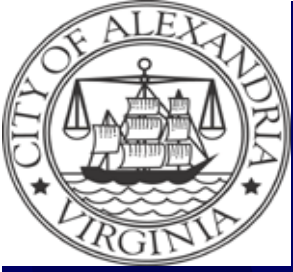
Council Retreat  
October 29, 2005

City Council Budget Retreat --  
October 29, 2005



# Introduction

- New Process Under Resolution 2150
  - Targets to be set by Council for FY 2007 budget
  - Extensive information and range of choices being presented to Council
  - Forecasts and estimates are preliminary
- Many forces driving the budget



# Introduction

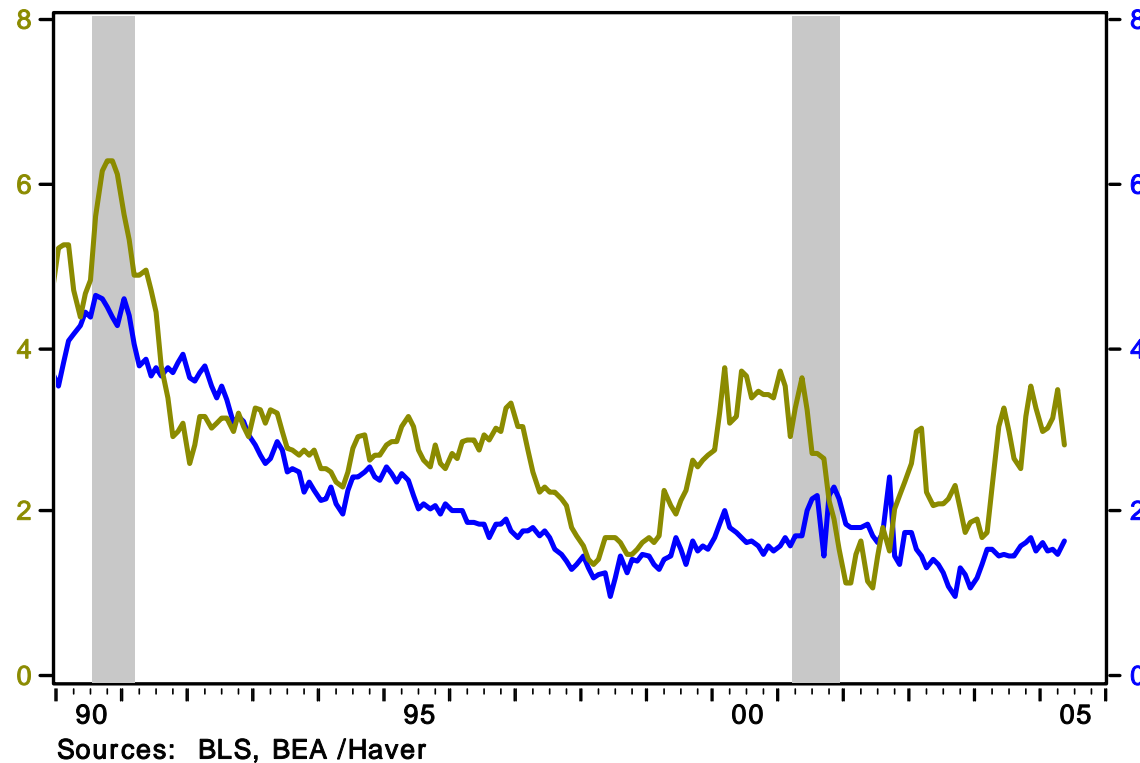
## ● Agenda for Budget Outlook Presentation

- Preliminary Economic and Revenue Outlook
- Fiscal Trends
- Preliminary Expenditure Outlook
- Budget Target Setting Information
- Budget Process Changes
- Conclusion



# Preliminary Economic and Revenue Outlook

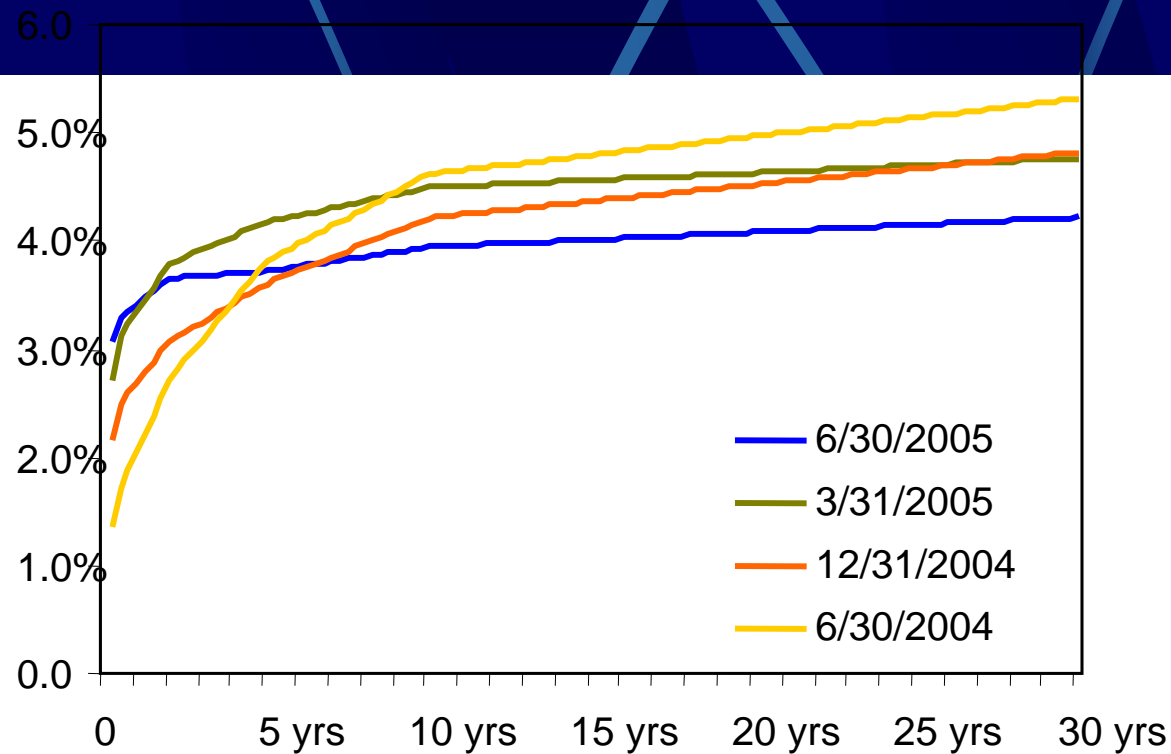
Aggregate Inflation Remains Moderate, but Energy Spike Shows  
YOY%: CPI (Olive) and Core PCE (Blue)





# Preliminary Economic and Revenue Outlook

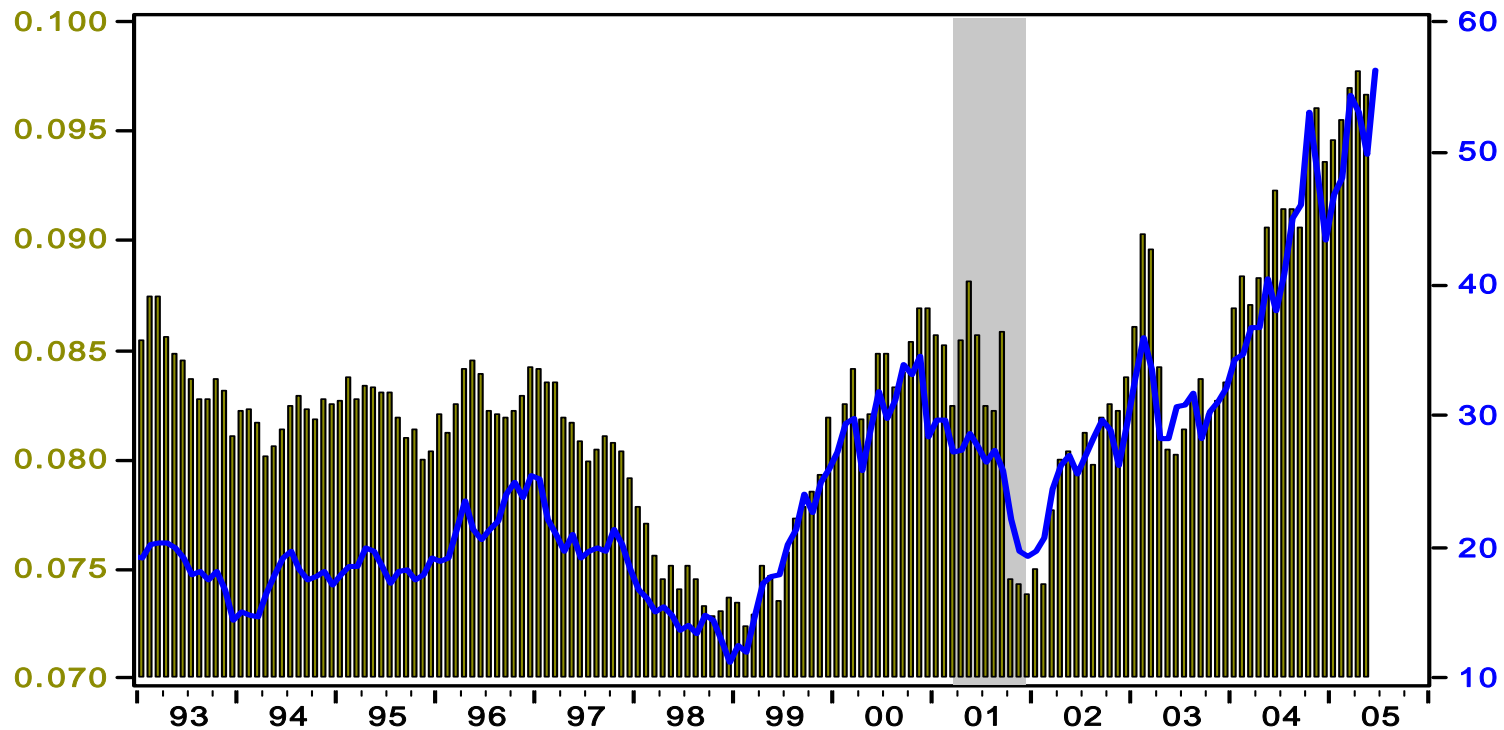
## Interest Rates





# Preliminary Economic and Revenue Outlook

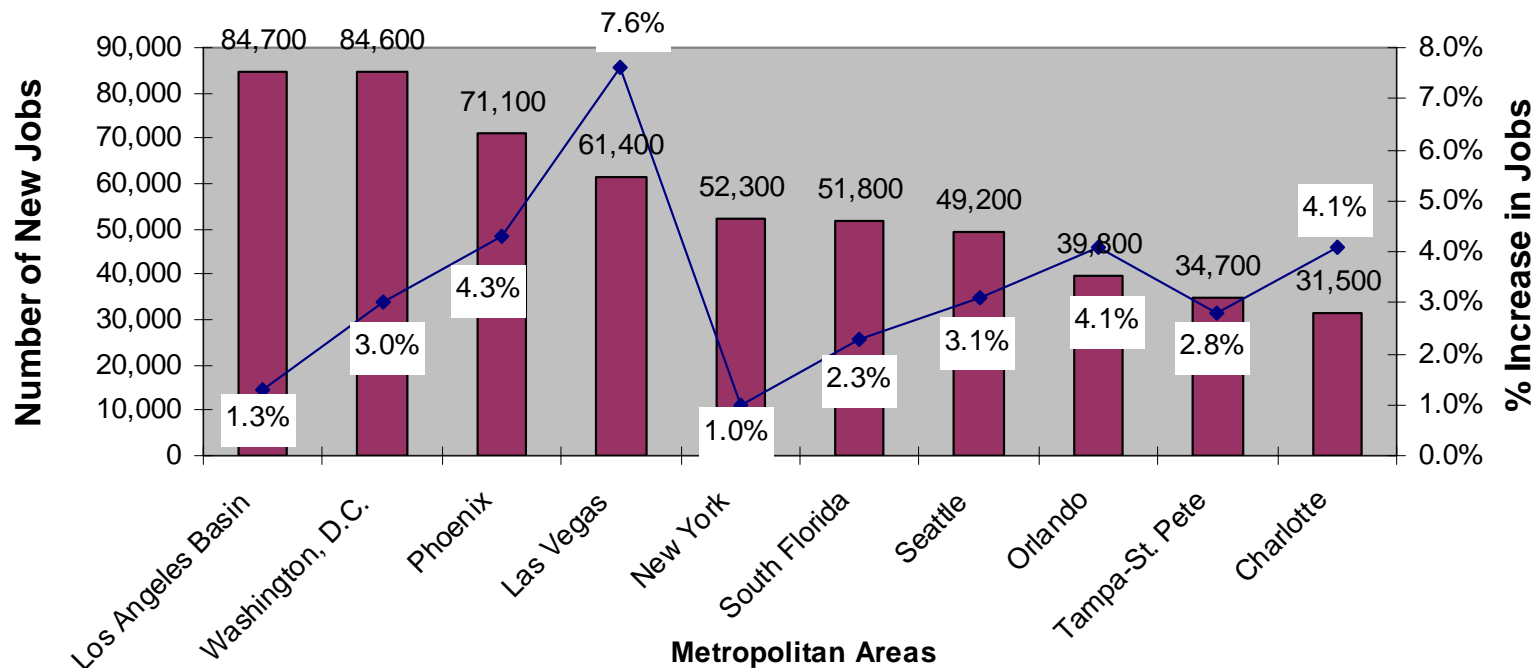
Higher Oil Prices Taking Increased Share of Consumer Spending  
WTI Oil (\$/Barrel - Blue) & Gasoline Sales / Total (Decimal - Olive)





# Preliminary Economic and Revenue Outlook

**12-Month Payroll Employment Change Through July 2005**



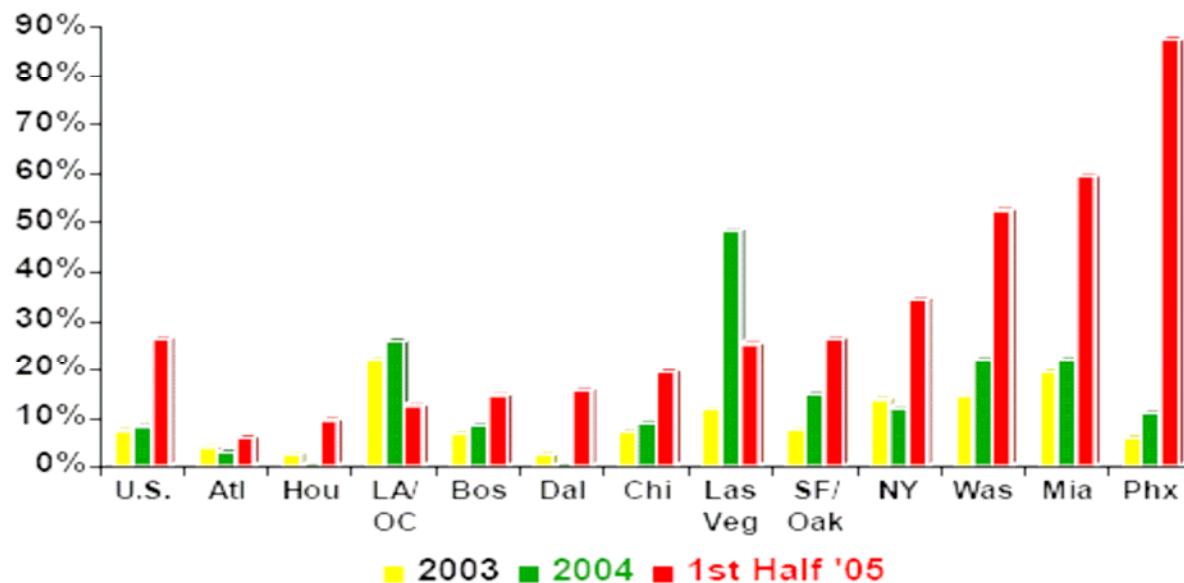
Source: Bureau of Labor Statistics, Delta Associates; September 2005



# Preliminary Economic and Revenue Outlook



## Annual Escalation of Existing Home Sale Prices



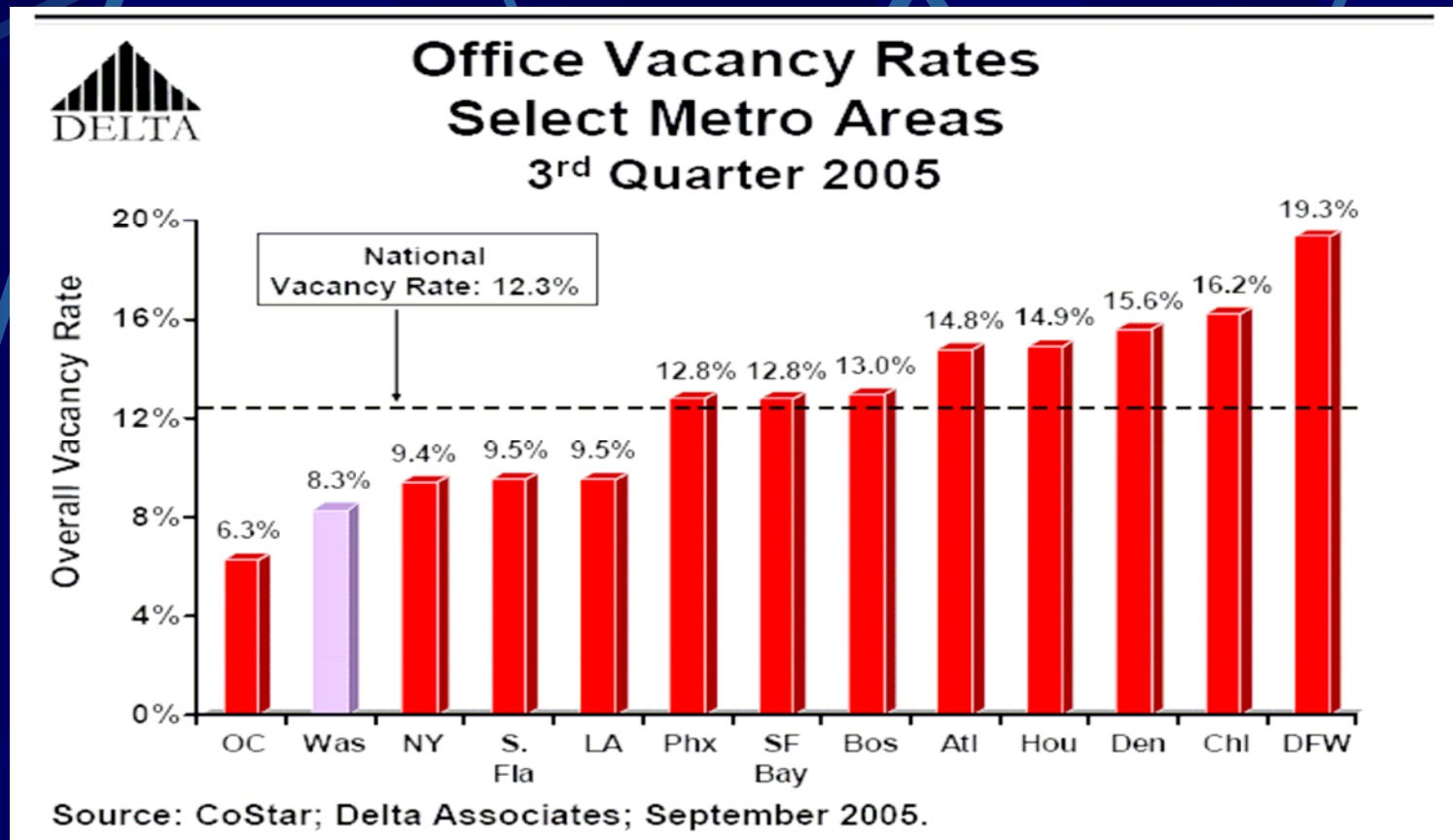
\*1st Half 2005 Annualized

Source: National Association of Realtors; September 2005.





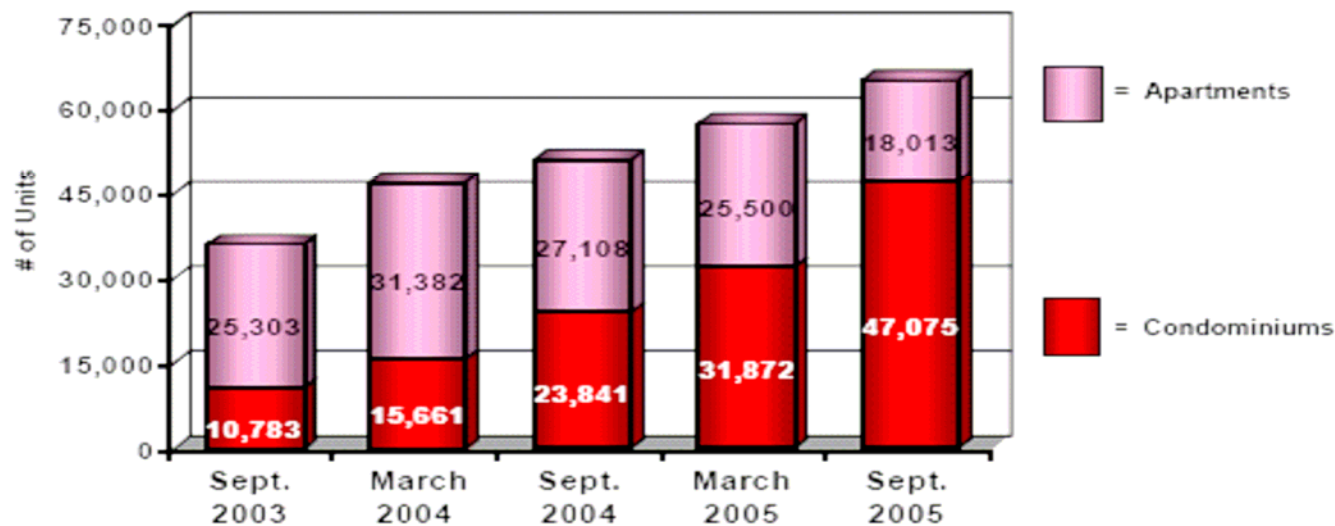
# Preliminary Economic and Revenue Outlook





# Preliminary Economic and Revenue Outlook

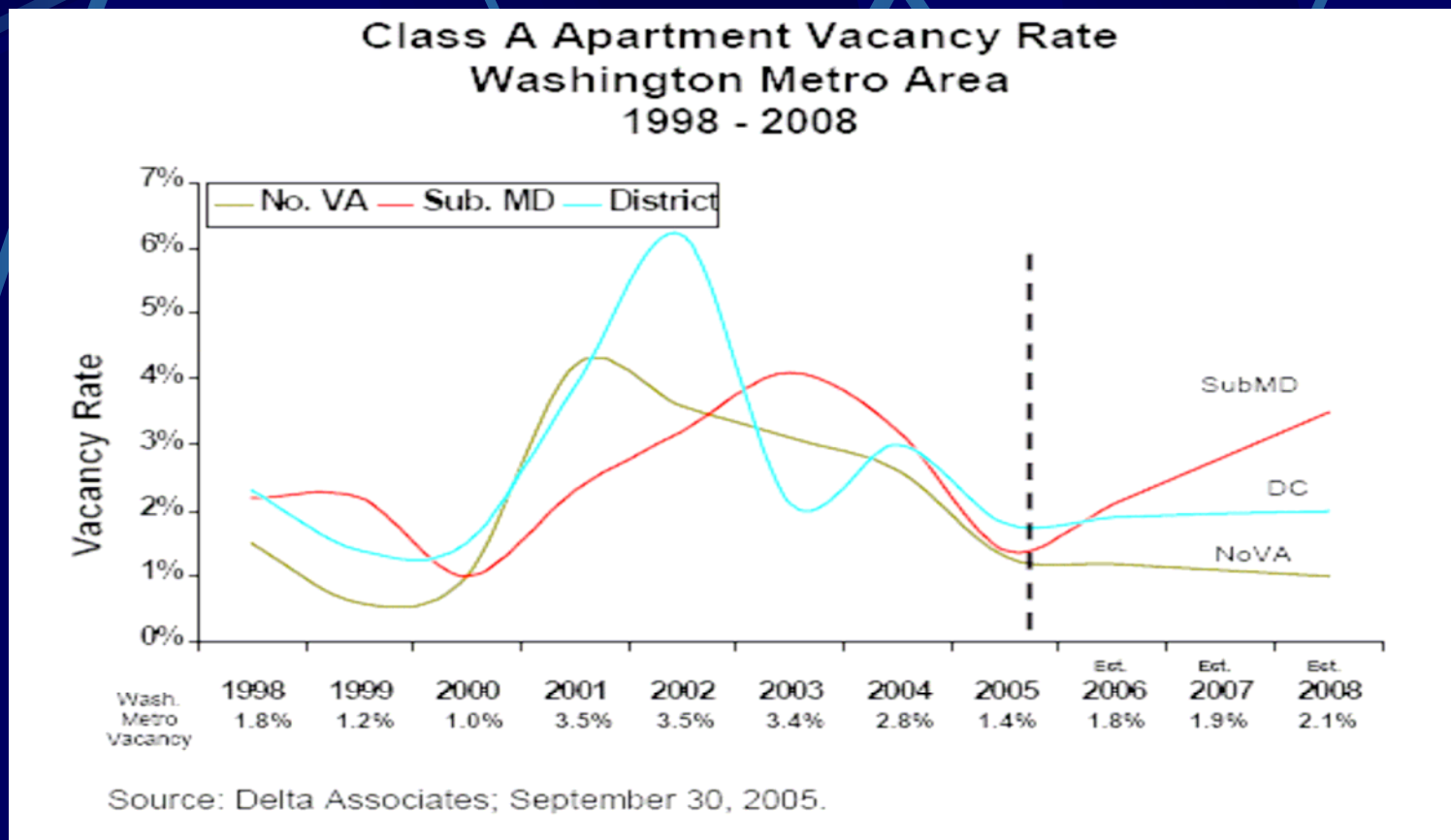
**36-Month Multifamily Market Pipeline**  
Washington Metro  
2003 - 2005



Source: Delta Associates; September 30, 2005.



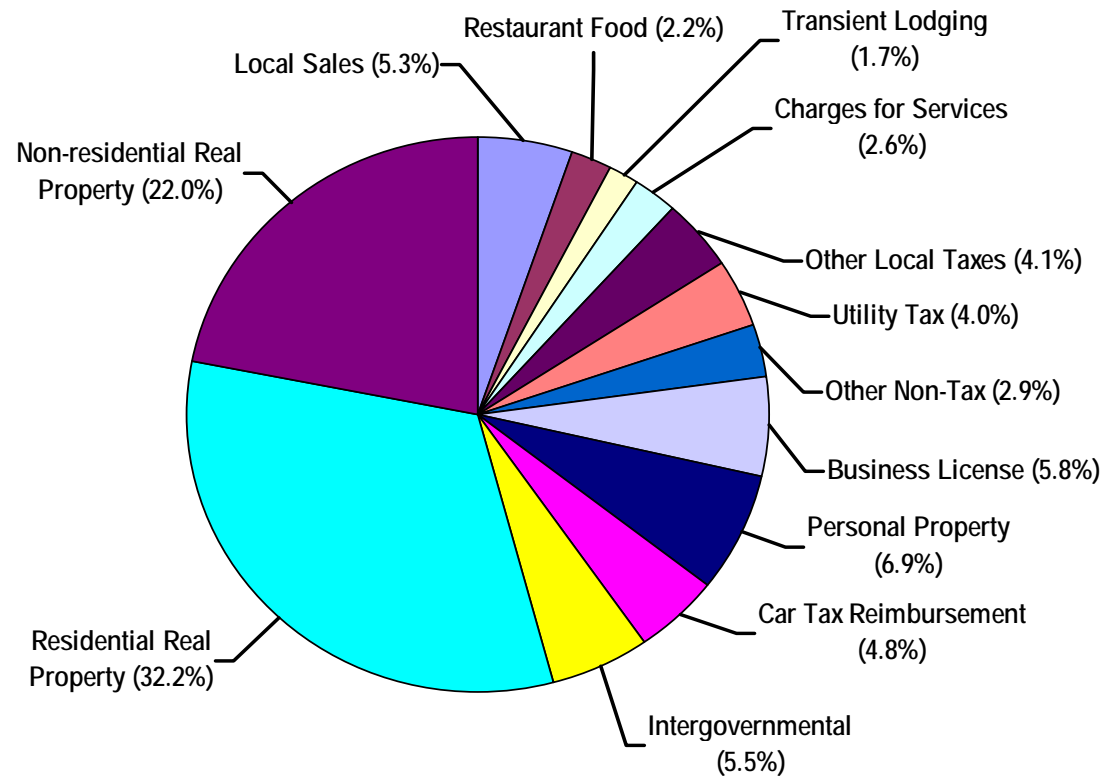
# Preliminary Economic and Revenue Outlook





# Preliminary Economic and Revenue Outlook

## FY 2006 COMBINED GENERAL FUND REVENUES, WHERE IT COMES FROM...



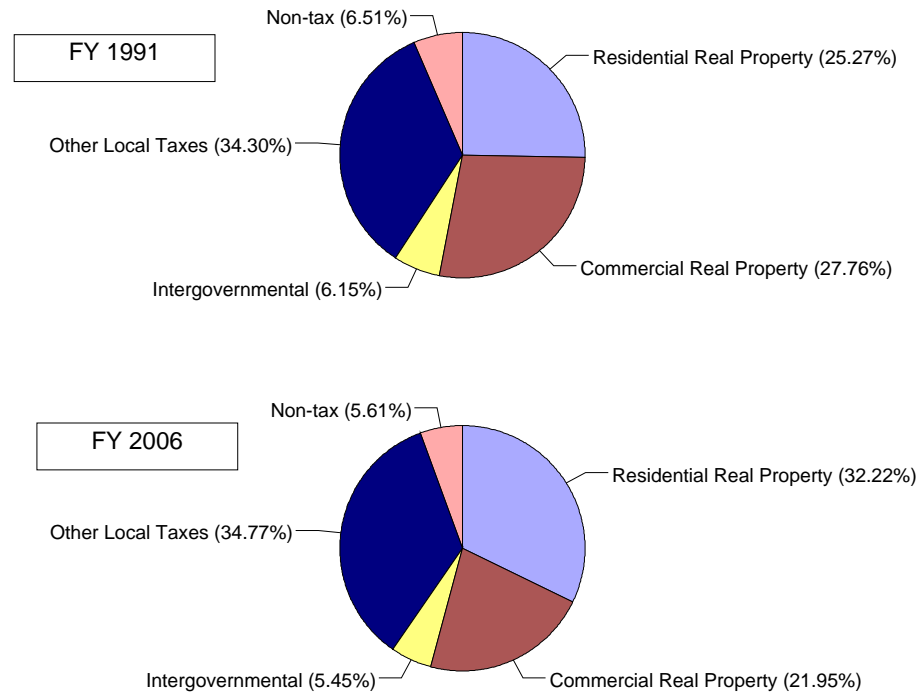
City Council Budget Retreat --  
October 29, 2005

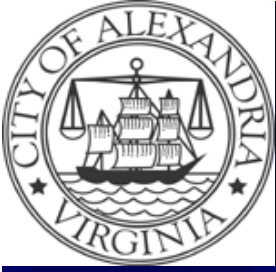


# Preliminary Economic and Revenue Outlook

## Share of General Fund Revenue

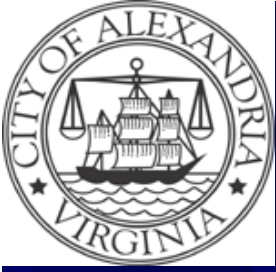
FY 1991 and FY 2006





# Preliminary Economic and Revenue Outlook

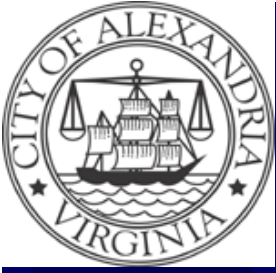
- 2006 Projected Real Estate Assessments
  - Based on 2005 sales and income/expense data
  - Mirror national and regional economic and housing trends
  - Residential assessment projections likely close to final numbers
  - Commercial and new construction assessments represent work in progress
  - Assessments will be issued on February 9



# Preliminary Economic and Revenue Outlook

- 2006 Projected Real Estate Assessments
  - Single Family = +17%
  - Condominium = +22%
  - Average Residential = 18%





# Preliminary Economic and Revenue Outlook

- 2006 Projected Real Estate Assessments
  - Apartment = +15%
  - Office, Retail, Service = +16%
  - Other = +25%
  - Average Commercial = +16%



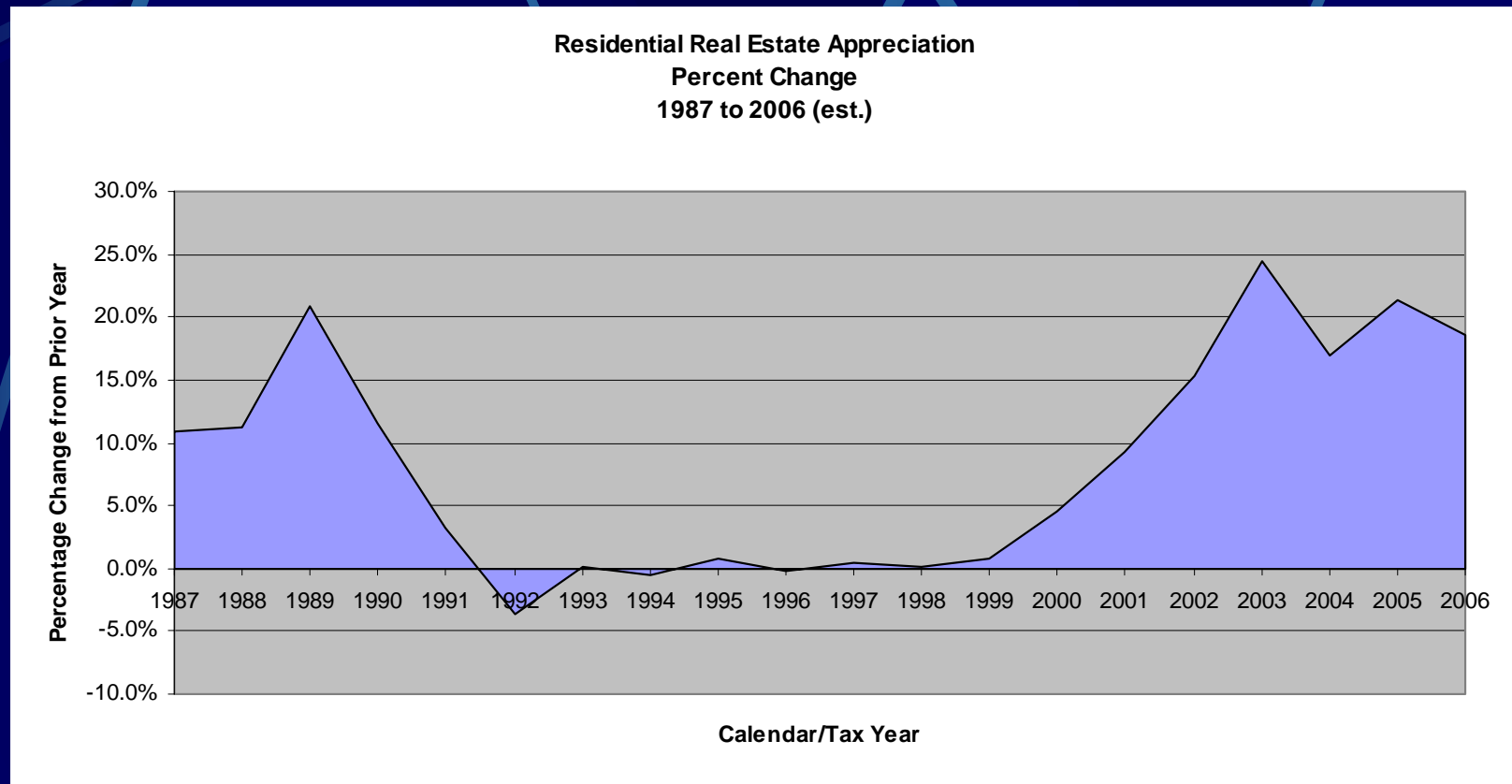


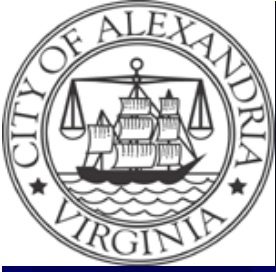
# Preliminary Economic and Revenue Outlook

- 2006 Projected Real Estate Assessments
  - \$500 plus million approx. new growth = about +1.5%
  - Utilities and Other PSC = +8%
  - Total Tax Base Increase = +19%



# Preliminary Economic and Revenue Outlook





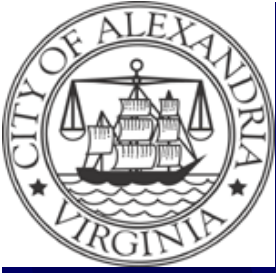
# Preliminary Economic and Revenue Outlook

- Targeted Real Estate Tax Relief (\$3.3 million)
  - In 2005 Relief was provided to
    - 966 Seniors and Disabled (\$ 2,826 ave.)
    - 1,033 AHOP grantees (\$518 ave.)
      - 252 @ \$275
      - 308 @ \$475
      - 473 @ \$675
  - Program criteria to be reviewed for expanded tax relief in 2006



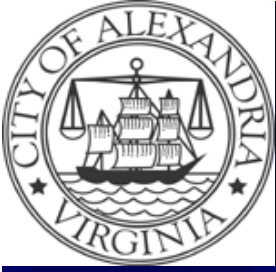
# Preliminary Economic and Revenue Outlook





# Preliminary Economic and Revenue Outlook

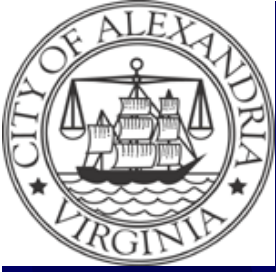
- Residential Real Estate Prognostications
  - Fall like a brick?
  - Bubble about to burst?
  - Tiny bubbles?
  - Froth?
  - Soft Landing?
  - Flatten out?



# Preliminary Economic and Revenue Outlook

- 2007 Projected Real Estate Assessments
  - Higher mortgage interest rates
  - Incomes not keeping up with home prices
  - Signs of market slowing
  - New condos at 5 year supply in pipeline
  - Fewer condo conversions





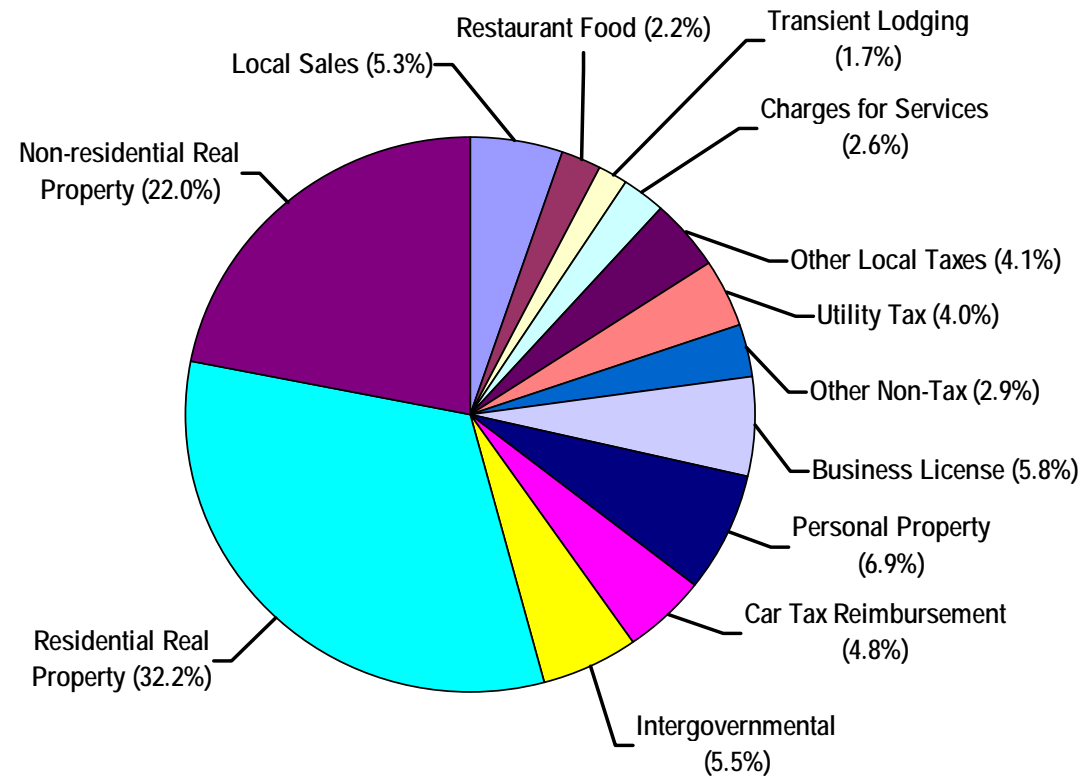
# Preliminary Economic and Revenue Outlook

- Personal Property Taxes
  - Recent state law changes
  - Reimbursement capped and may change % of tax bill relieved
  - Law also allows for tiered rates
  - Impact of law changes to be studied
  - Decline in car tax base?



# Preliminary Economic and Revenue Outlook

## FY 2006 COMBINED GENERAL FUND REVENUES, WHERE IT COMES FROM...

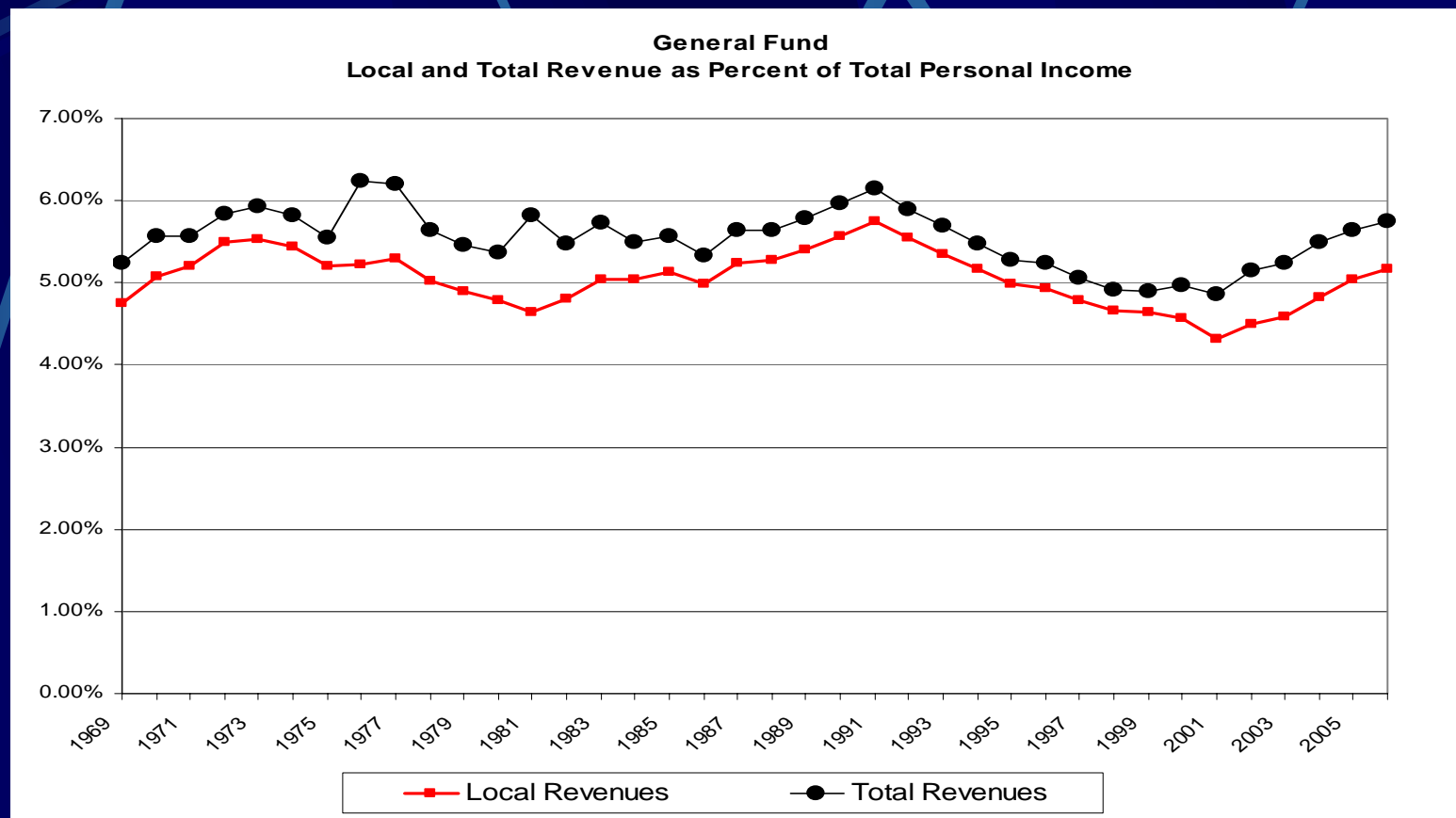


City Council Budget Retreat --  
October 29, 2005



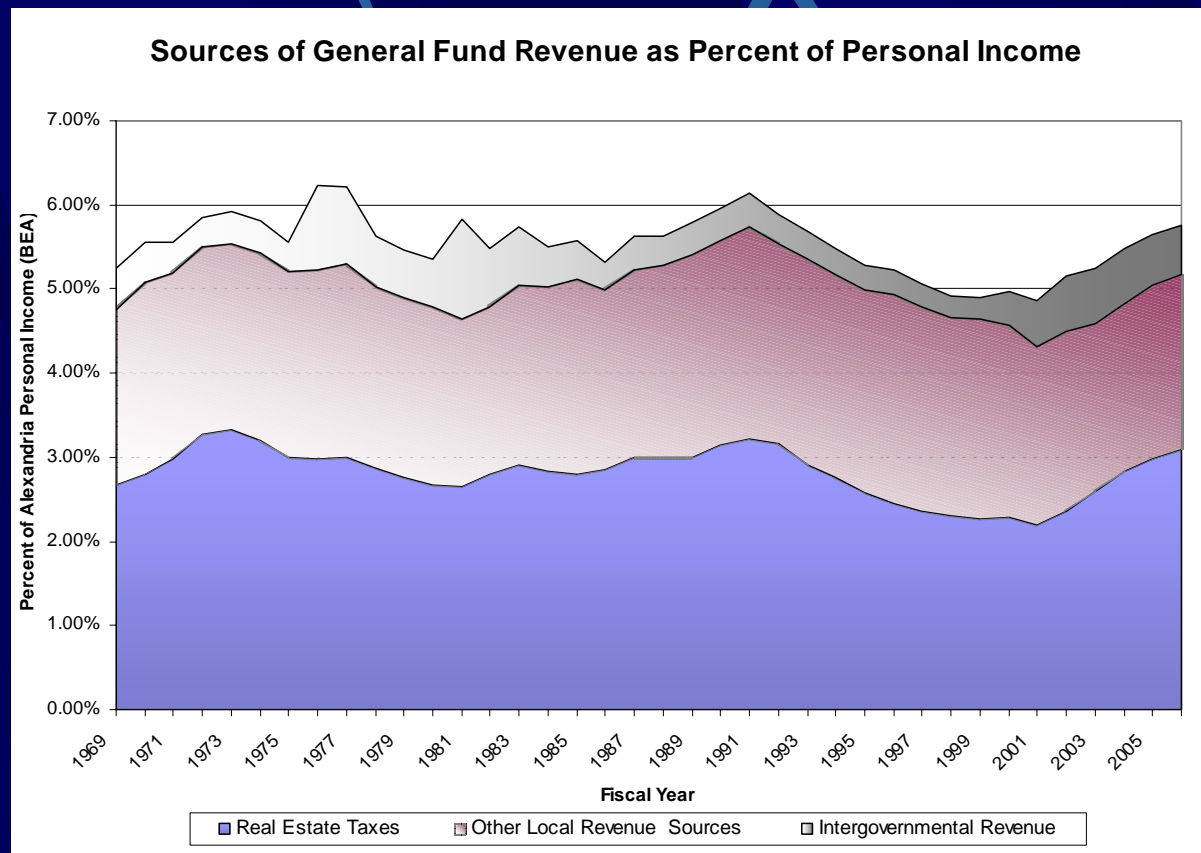


# Fiscal Trends



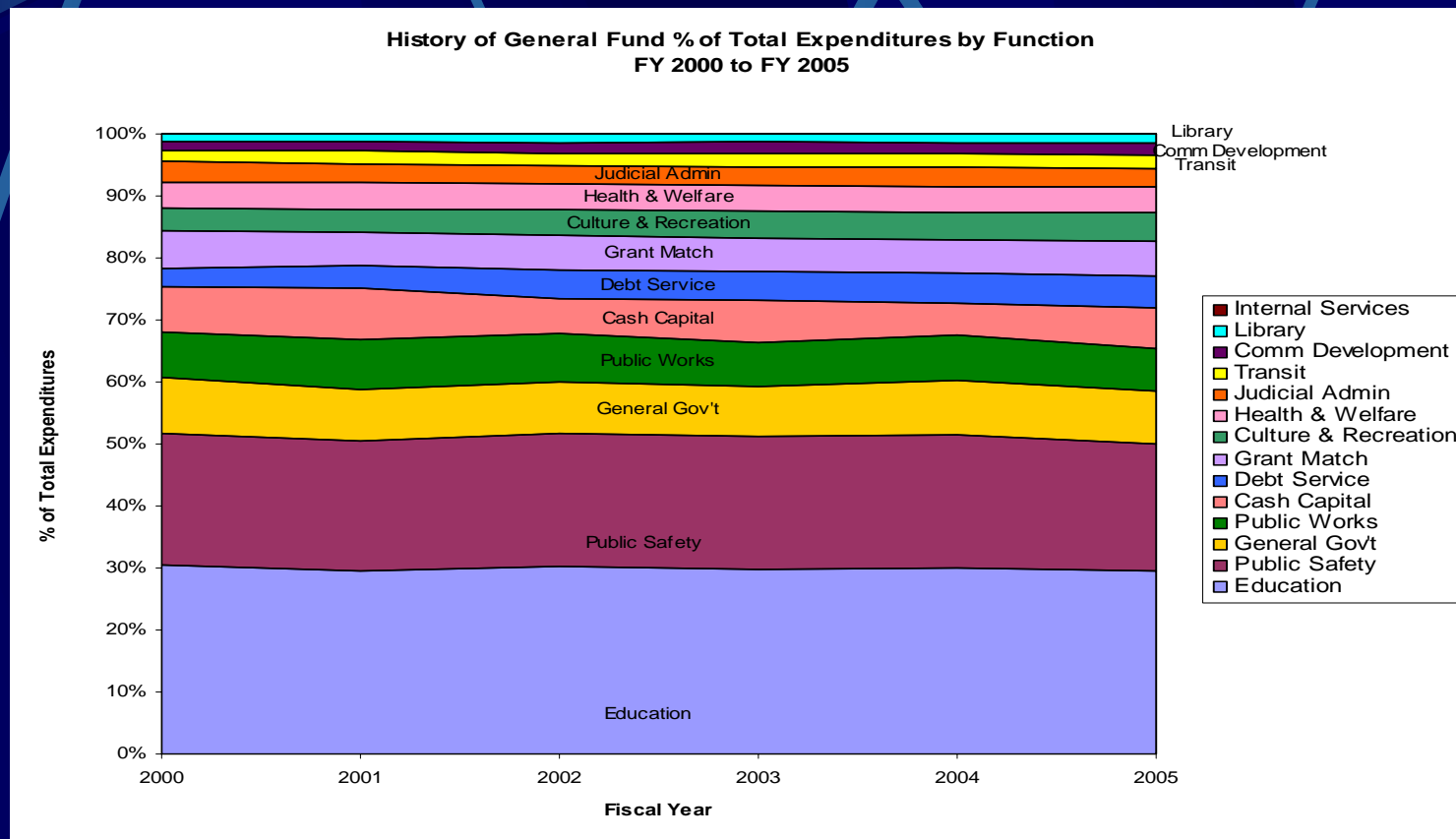


# Fiscal Trends



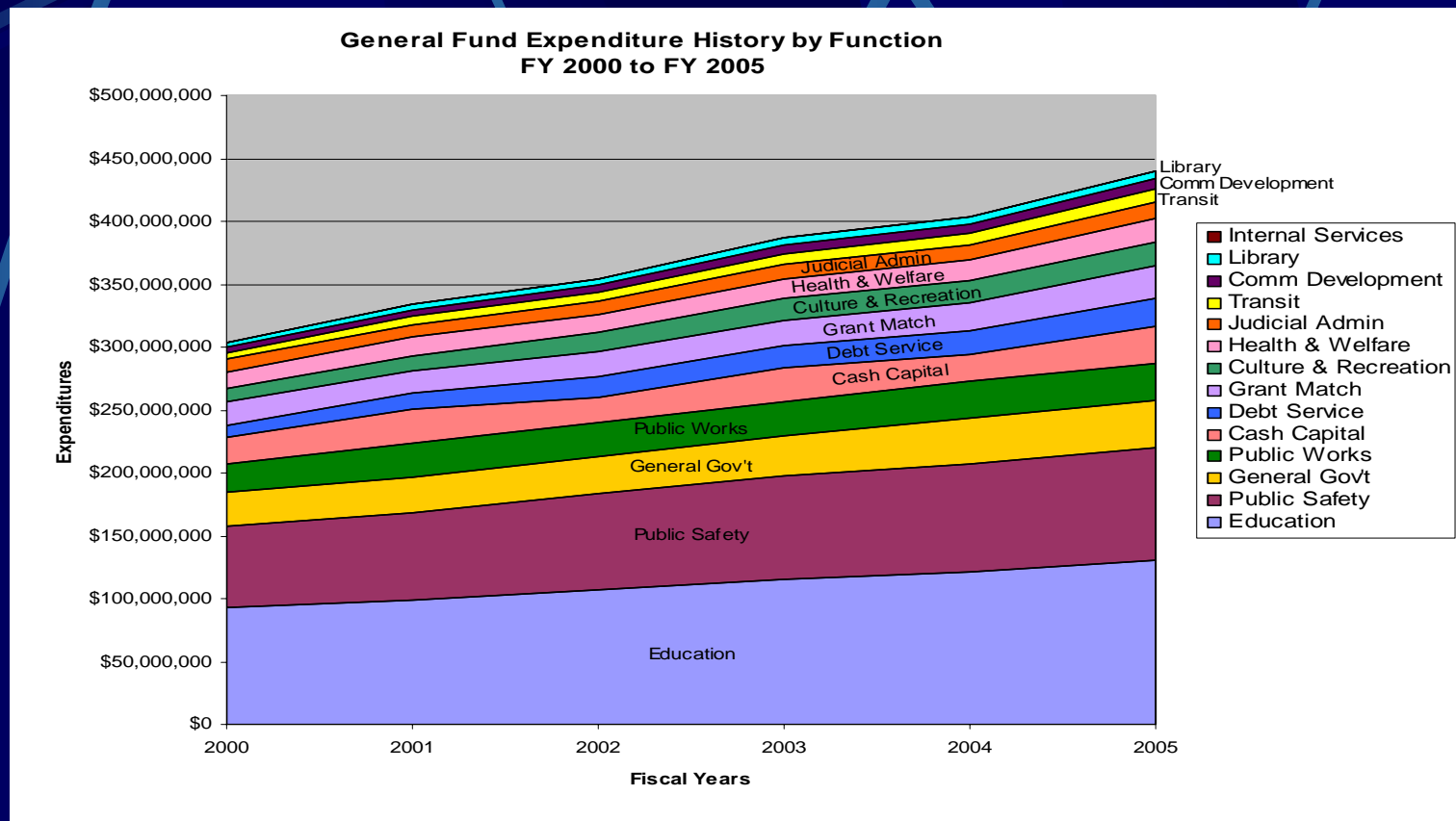


# Fiscal Trends





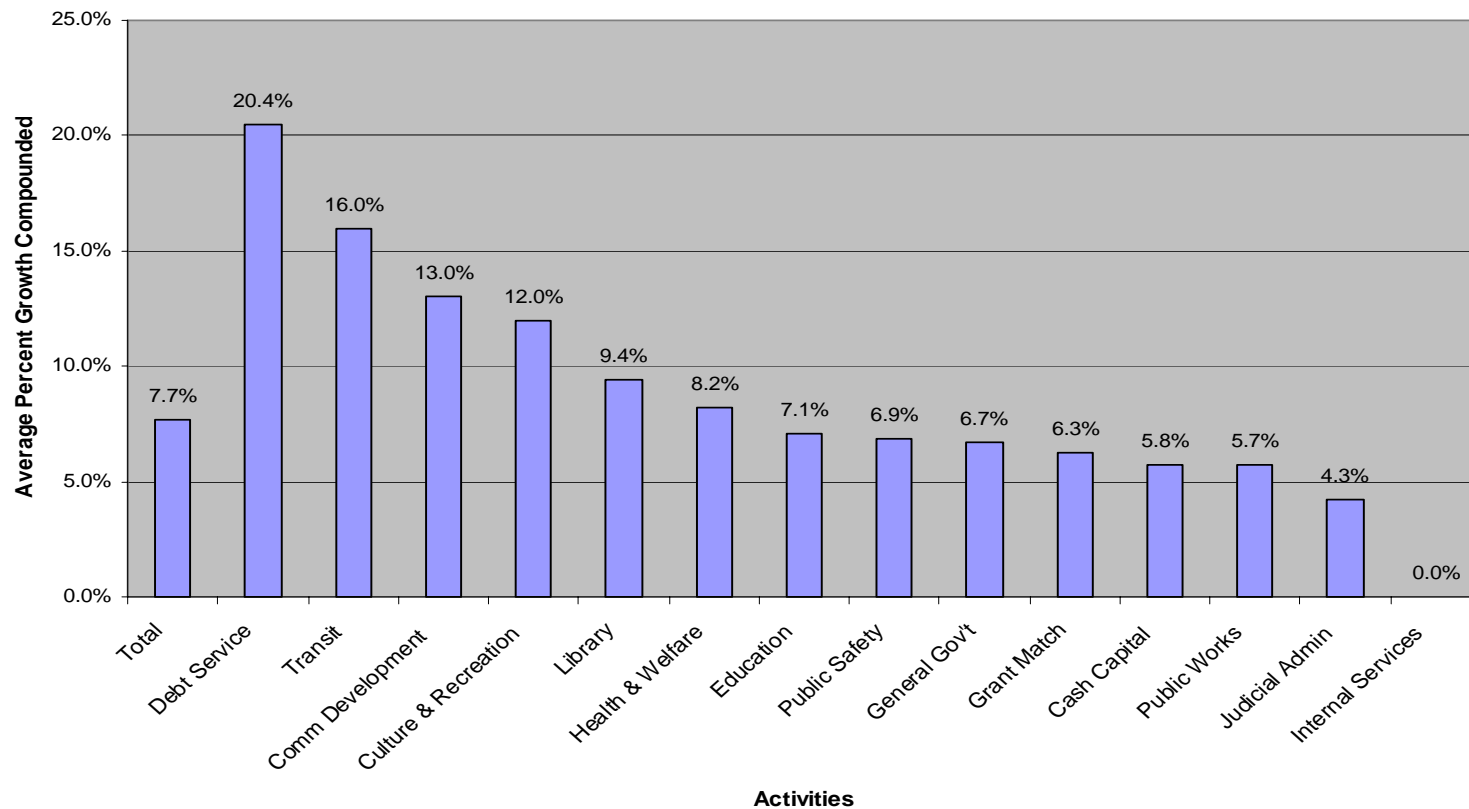
# Fiscal Trends





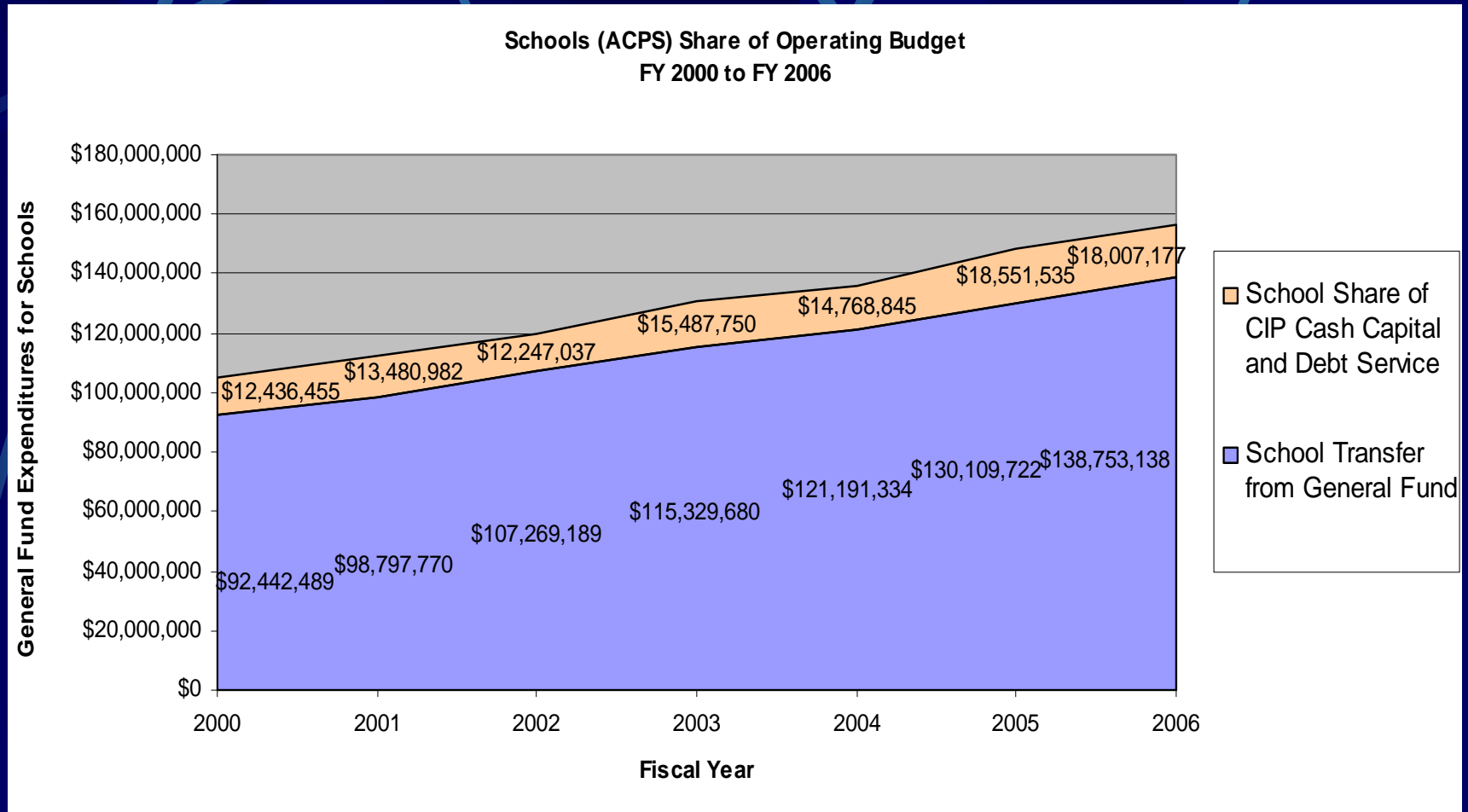
# Fiscal Trends

**Average Annual Percentage Growth FY 2000 to FY 2005**





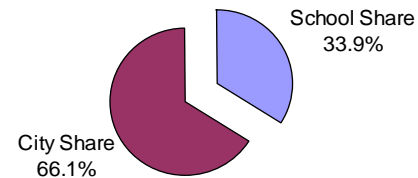
# Fiscal Trends



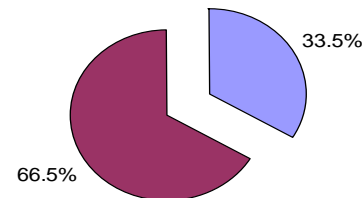


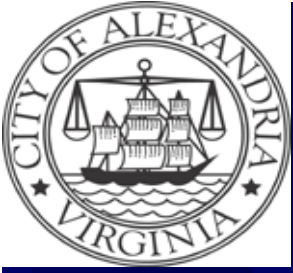
# Fiscal Trends

City and School Share of Budget With CIP Costs Allocated  
FY 2000

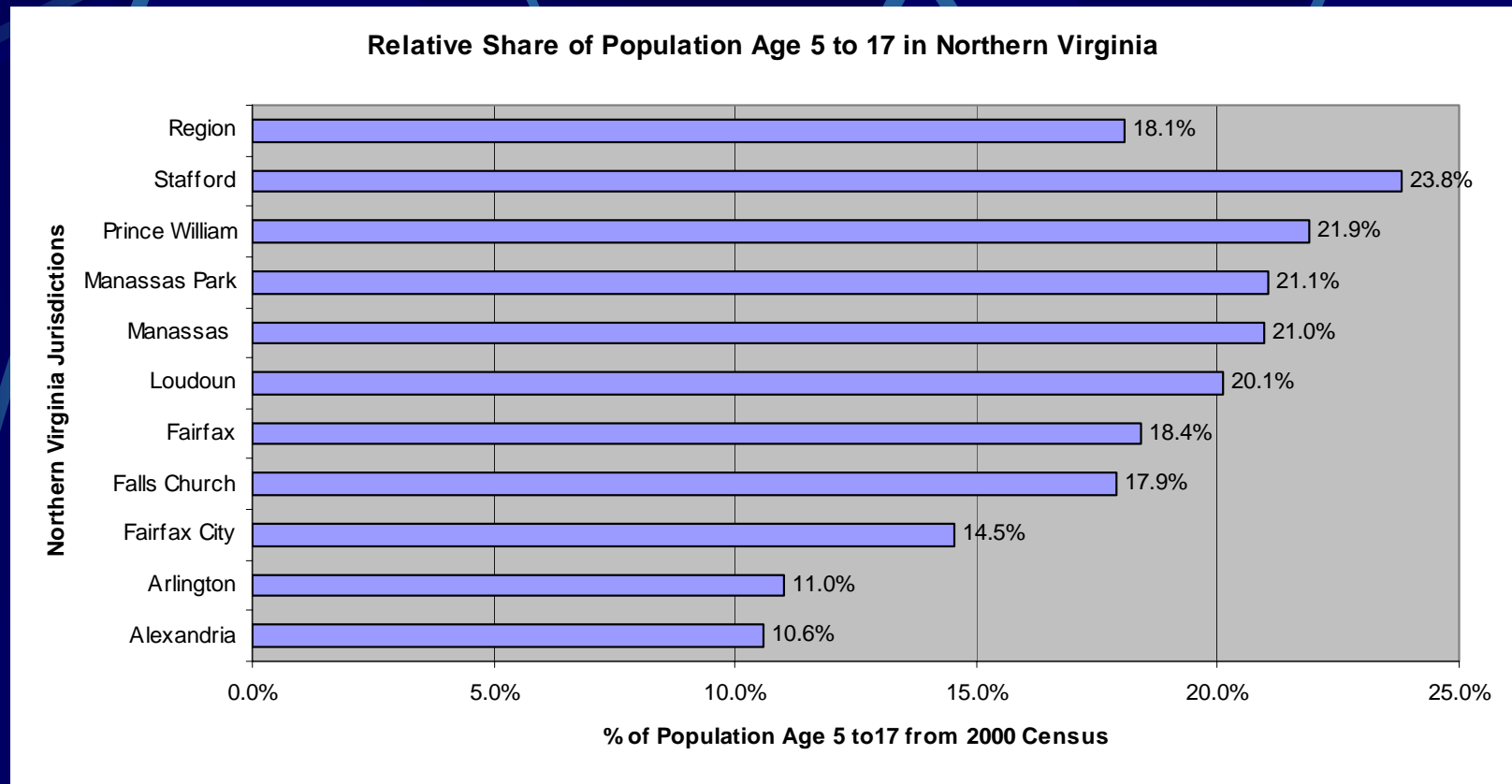


City and School Share of Budget With CIP Costs Allocate  
FY 2006

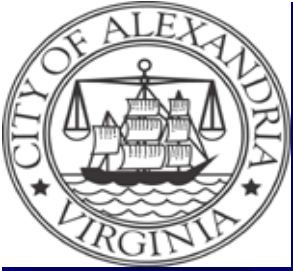




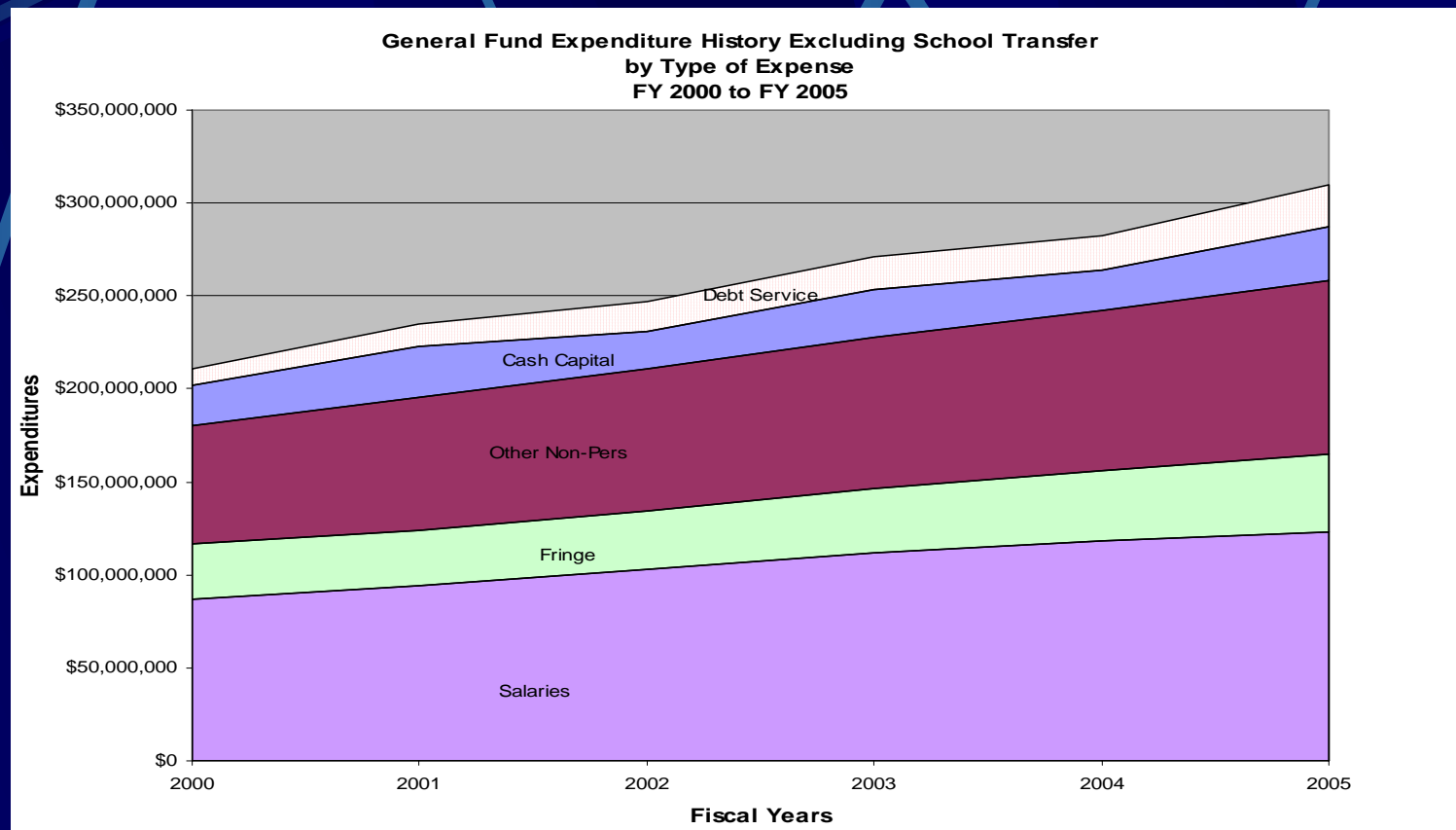
# Fiscal Trends

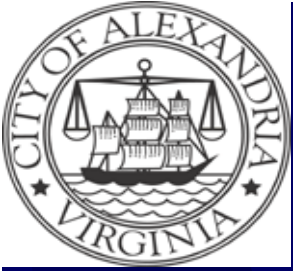






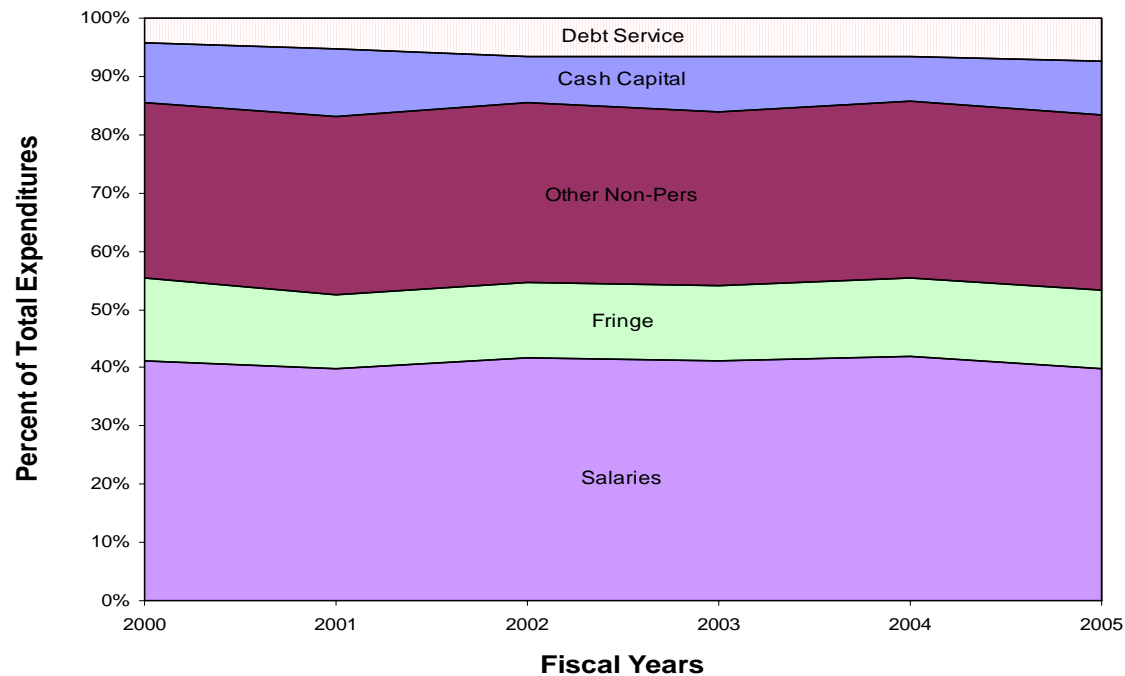
# Fiscal Trends





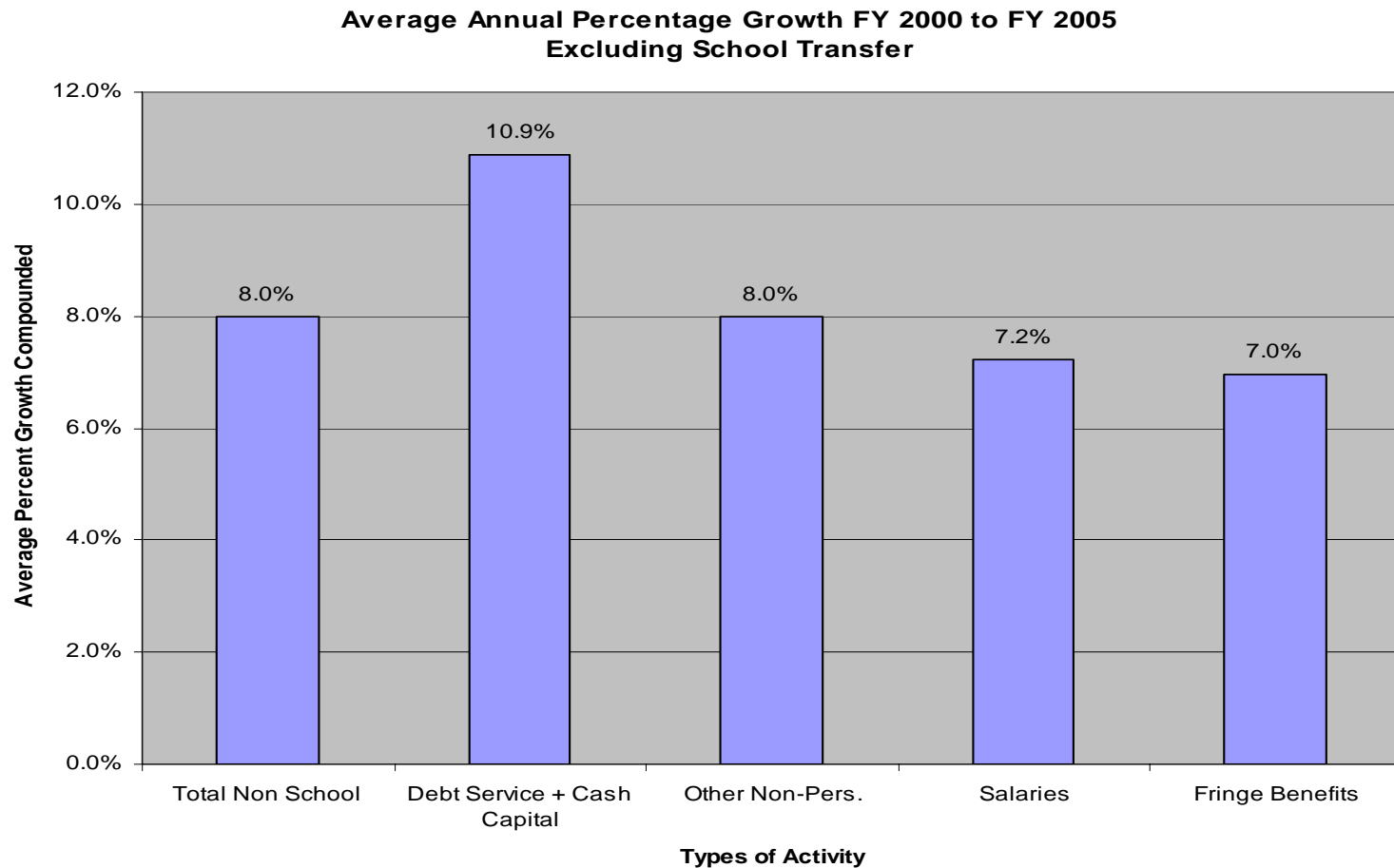
# Fiscal Trends

**General Fund Expenditure History Excluding School Transfer  
by Type of Expense  
FY 2000 to FY 2005**

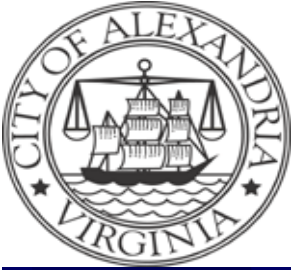




# Fiscal Trends

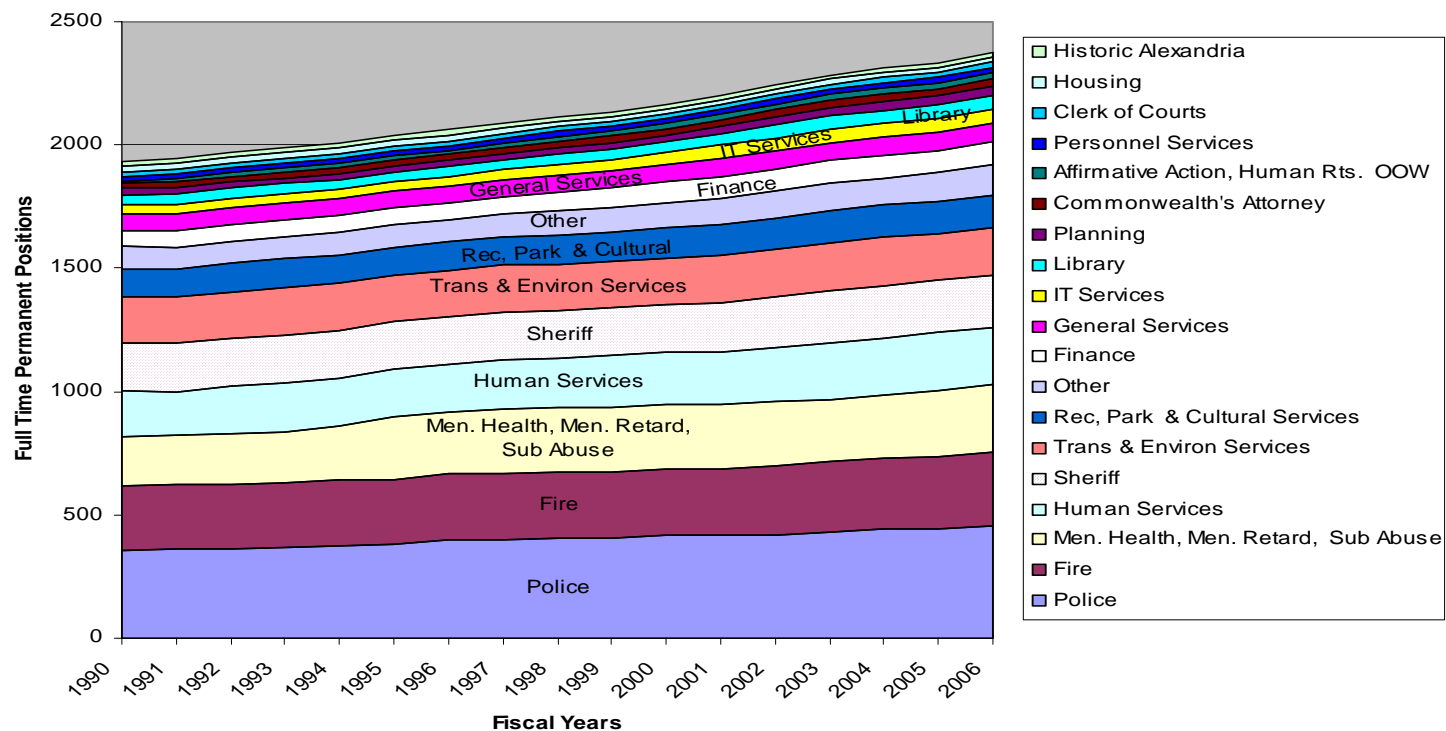


City Council Budget Retreat --  
October 29, 2005



# Fiscal Trends

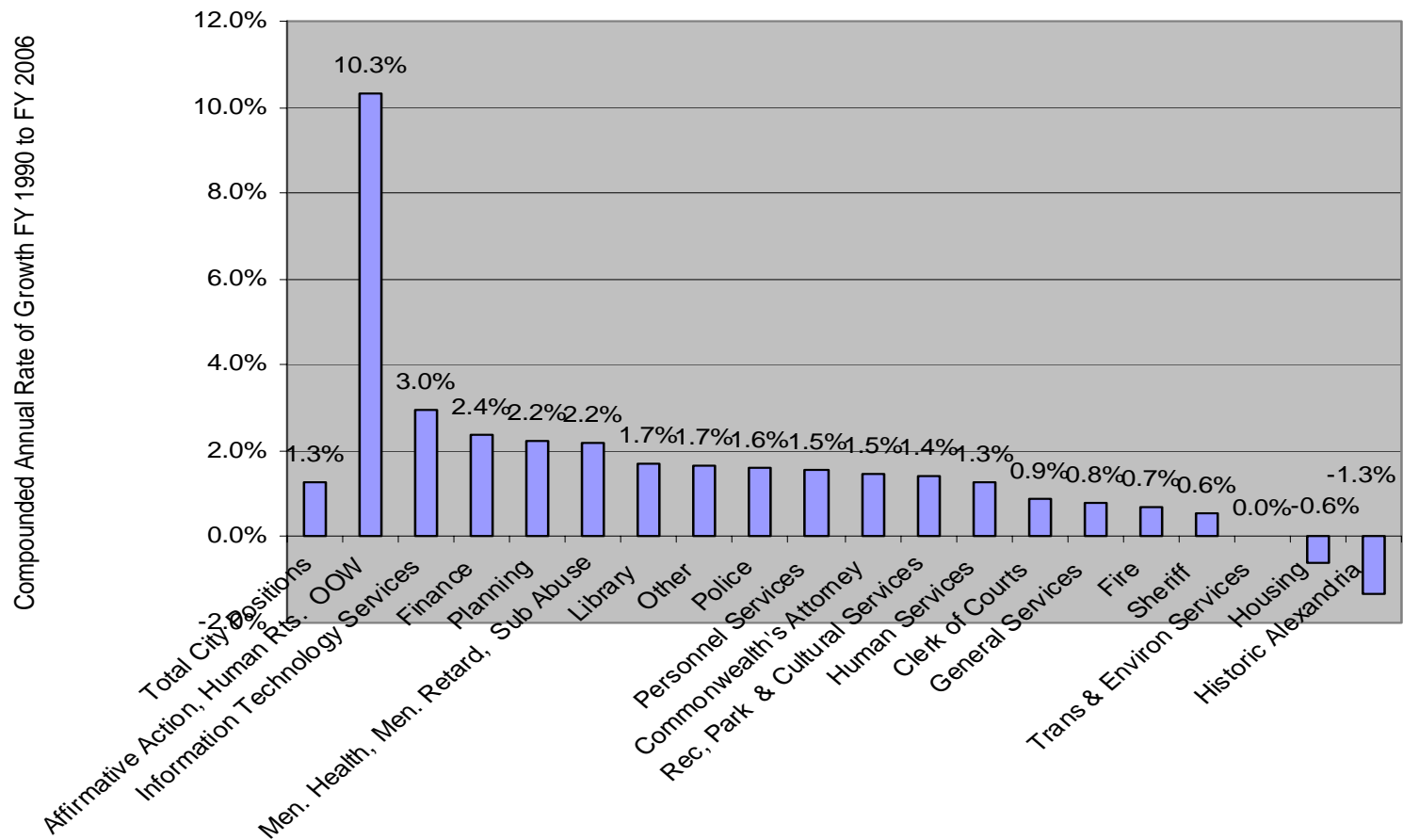
Full Time Permanent Positions History 1990 to 2006





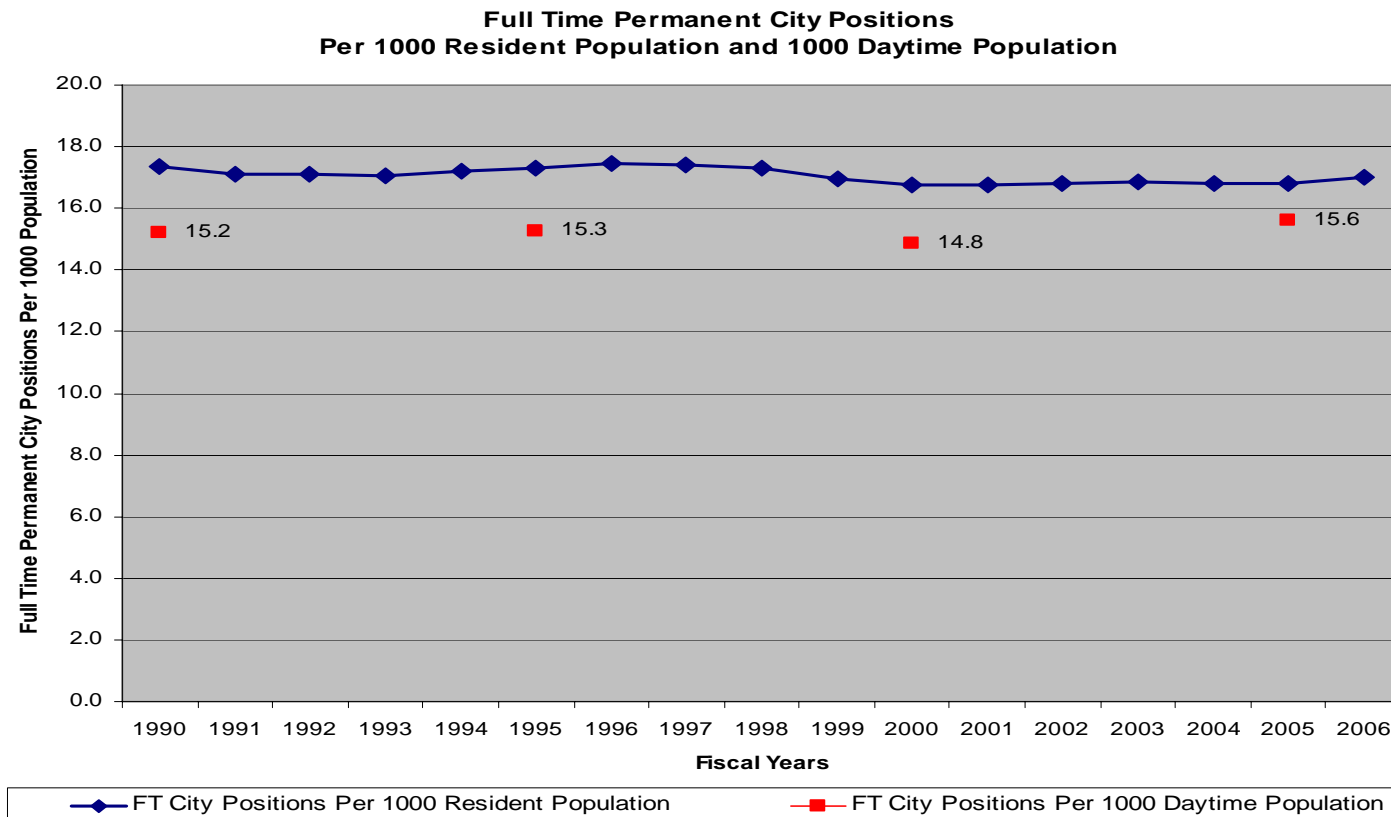
# Fiscal Trends

Average Annual Percent Growth in Full Time Permanent Positions  
FY 1990 to FY 2006





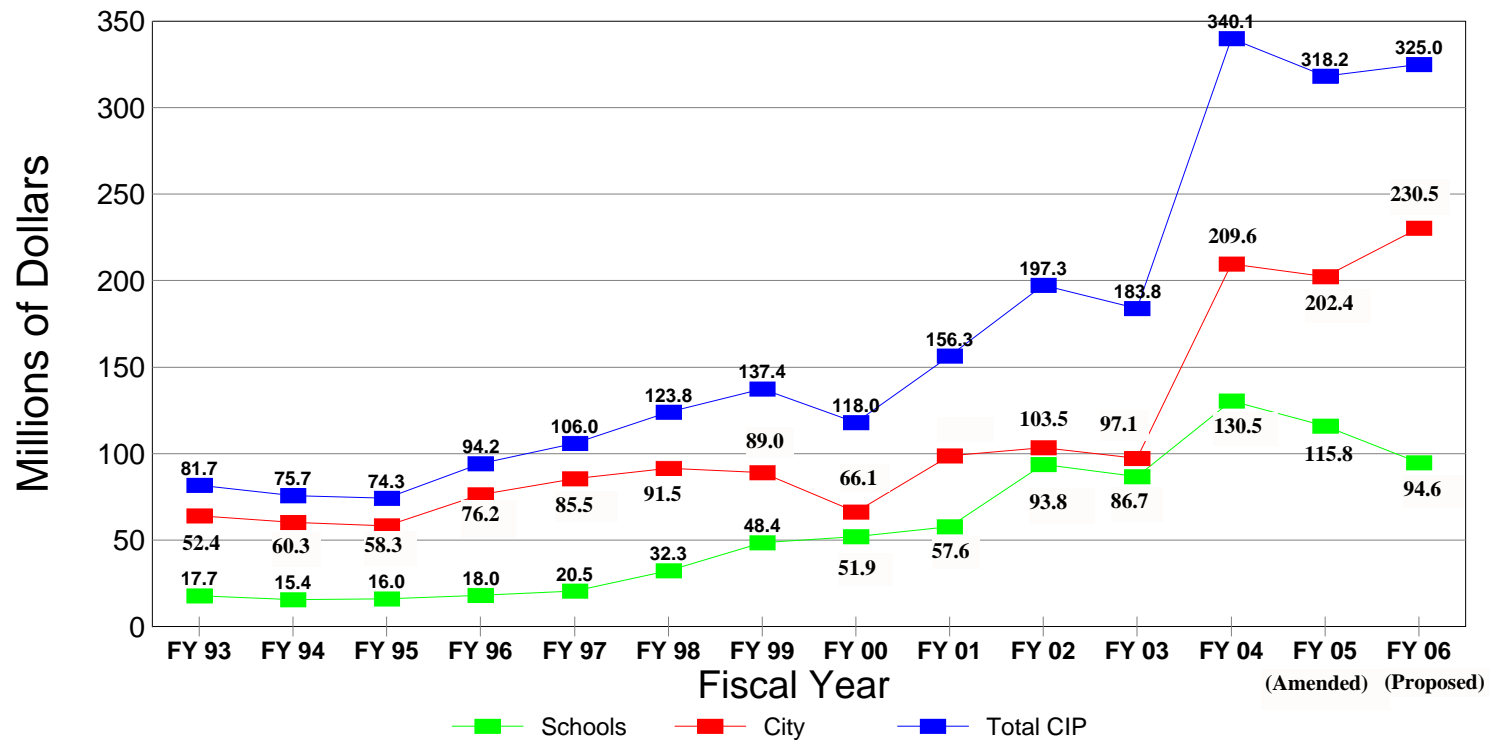
# Fiscal Trends





# Fiscal Trends

**Total Local Funding - Approved CIPs**  
City and Schools CIP Project Funding

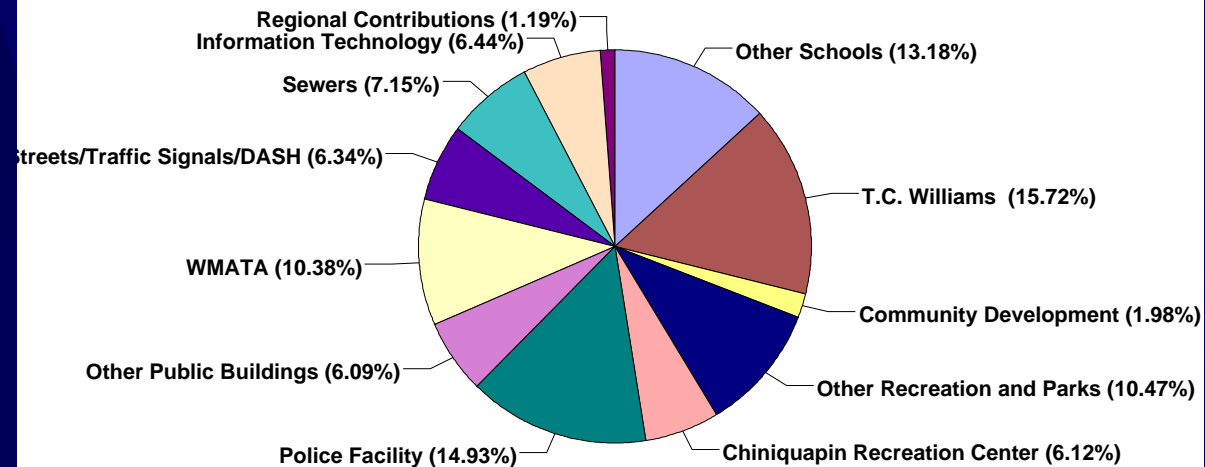




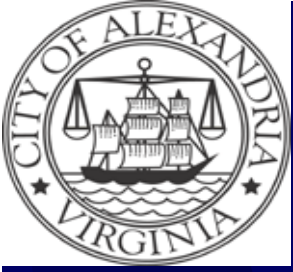
# Fiscal Trends

## FY 2006 - 2011 Capital Improvement Program

Programs by Share

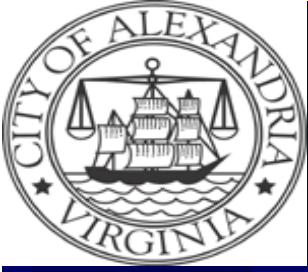






# FY 2007 Preliminary Expenditure Outlook

- Preliminary forecast of current services and policies baseline
- Answers question: What is needed to maintain current services and policies?
  - Meet uncontrollable cost increases
  - Meet legal requirements
  - Fulfill existing City Council policies



# FY 2007 Preliminary Expenditure Outlook

- Adjustments in FY 2006
  - Sworn Public Safety Officer Compensation +\$3.0 M
  - Fuel and energy cost increases + \$1.0 M
  - Medical Costs for Jail Inmates +\$0.25 M
  - Sanitary sewer shift to a separate fund to reflect new self-supporting nature of program -\$2.8 M



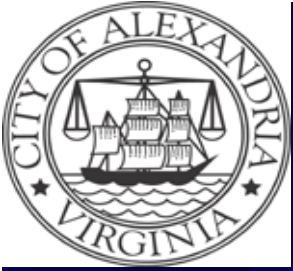
# FY 2007 Preliminary Expenditure Outlook

	City Ops.	Transit	Schools	CIP	Total
FY 2006*	\$272.5 M	\$12.5 M	\$138.8 M	\$45.6 M	\$469.3 M
Adjustments to Baseline					
COLA if 3%	\$5.7 M		\$3.9 M		\$9.6 M
Merit Pay	\$3.5 M		\$3.5 M		\$7.0 M
VRS Retirement Charge	\$3.1 M		\$5.4 M		\$8.5 M



# FY 2007 Preliminary Expenditure Outlook

Adjustments to Baseline	City Ops.	Transit	Schools	CIP	Total
Health Insurance	\$2.4 M		\$1.9 M		\$4.3 M
Fuel and Energy	\$1.5 M		\$0.7M		\$2.2 M
Existing Contract Costs	\$1.3 M				\$1.3 M
Reserve and Special Ed. Teachers			\$0.9 M		\$0.9 M



# FY 2007 Preliminary Expenditure Outlook

Adjustments to Baseline	City Ops.	Transit	Schools	CIP	Total
Rent and Facility Maintenance	\$1.2 M				\$1.2 M
Grant Match Increase	\$1.1 M				\$1.1 M
Human Serv. Rev. Max Grant	\$1.0 M				\$1.0 M
Operating Cost of CIP	\$0.5 M				\$0.5 M



# FY 2007 Preliminary Expenditure Outlook

Adjustments to Baseline	City Ops.	Transit	Schools	CIP	Total
Vehicle and Equip.	\$0.5 M				\$0.5 M
METRO DASH Paratransit		\$1.5 M			\$1.5 M
Debt Service				\$1.9 M	\$1.9 M
Cash Capital				\$10.0 M	\$10.0 M



# FY 2007 Preliminary Expenditure Outlook

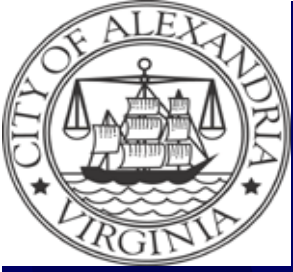
Adjustments to Baseline	City Ops.	Transit	Schools	CIP	Total
Use of FY 06 Surplus				-\$10.2 M	-\$10.2 M
Other Misc. Adjustments	\$0.8 M		\$3.4 M		\$4.2 M
Adjustments One Time Exp.			-\$3.7 M		-\$3.7 M
School Financing Changes			-\$1.9 M		-\$1.9 M





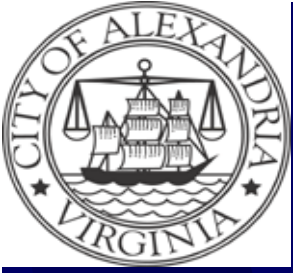
# FY 2007 Preliminary Expenditure Outlook

Adjustments to Baseline	City Ops.	Transit	Schools	CIP	Total
Sanitary Sewer (Self Funded)				-\$0.4 M	-\$0.4 M
Total Adj. To Baseline	\$22.8 M	\$1.5 M	\$14.0 M	\$1.4 M	\$39.7 M
% Increase to FY 2006 Adjusted Budget	8.4%	11.9%	10.1%	3.0%	8.5%



# FY 2007 Preliminary Expenditure Outlook

- Uncertainties
  - School enrollment
  - Fuel and Energy Costs
  - State and Federal Funding Availability for City and Schools
  - Health Insurance Costs
  - VRS Retirement Charges
  - Transit Subsidy Requirements



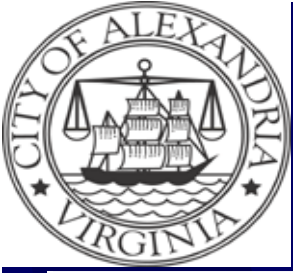
# FY 2007 Preliminary Expenditure Outlook

- City Operating Discretionary Program Increases
  - Under review by City Manager
  - May or may not be proposed to City Council
  - Grouped by strategic plan objectives



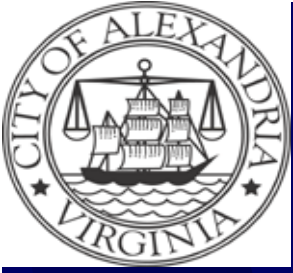
# FY 2007 Preliminary Expenditure Outlook

<b>Discretionary Program Increases</b>	<b>City Ops.</b>	<b>Transit</b>	<b>Schools</b>	<b>CIP</b>	<b>Total</b>
Public Safety	\$1.4 M				\$1.4 M
Transportation	\$0.3 M	Unknown			\$0.3 M
Environment	\$0.9M				\$0.9 M
Development Redevelopment	\$0.2 M				\$0.2 M
Caring Community	\$1.7 M				\$1.7 M



# FY 2007 Preliminary Expenditure Outlook

Discretionary Program Increases	City Ops.	Transit	Schools	CIP	Total
Efficiency, Sustainability	\$1.4 M				\$1.4 M
Education			\$2.9 M		\$2.9 M
CIP Net Increases				\$0.8 M	\$0.8 M
Efficiency Savings/Other Reductions	-\$0.7 M				-\$0.7 M
Use of Additional FY 06 Surplus				-\$2.9 M	-\$2.9 M



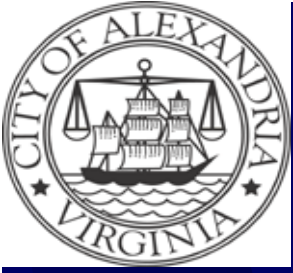
# FY 2007 Preliminary Expenditure Outlook

<b>Discretionary Program Increases</b>	<b>City Ops.</b>	<b>Transit</b>	<b>Schools</b>	<b>CIP</b>	<b>Total</b>
Total Disc. Prog. Increases or Decreases	\$5.2 M	Unknown	\$2.9 M	-\$2.1 M	\$6.0 M
% Increase to FY 2006 Adjusted Budget	1.9%	Unknown	2.1%	-4.6%	1.3%
Total \$ Requested	\$28.0 M	\$1.5 M	\$16.9 M	-\$0.7 M	\$45.6 M
Total % Increase	10.3%	11.9%	12.2%	-1.6%	9.7%

# Continuous Improvement Process

- Internal focus designed to accomplish many things
  - Seek efficiencies and savings
  - Improve services and quality
  - Improve timeliness
  - Challenge the status quo

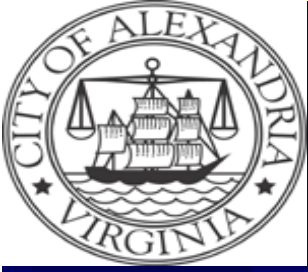




# Continuous Improvement Process

- City-wide Administrative Process Improvements
  - 140 ideas suggestions under review to improve City-wide administrative processes and procedures

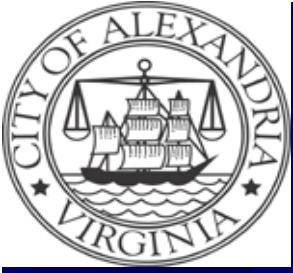




# Continuous Improvement Process

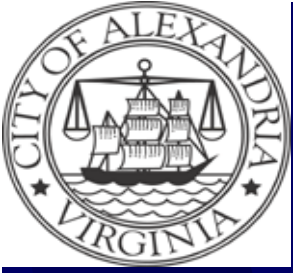
## ● Improvement Teams

- Personnel Classification, Recruitment and Selection
- Personnel Training
- Purchasing
- Facilities Management
- Fleet Management



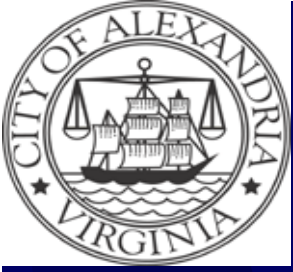
# Continuous Improvement Process

- Departmental Process Improvements
  - Ideas that focus mainly on department-specific improvements
  - Suggested by Departments during FY 2007 budget submissions
  - 60 ideas/suggestions being followed up



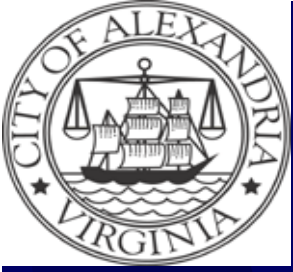
# Continuous Improvement Process

- Department Efficiency/Best Practice Studies
  - Conduct third-party efficiency reviews of selected City departments
  - Establish appropriate management metrics and benchmarks for every City department



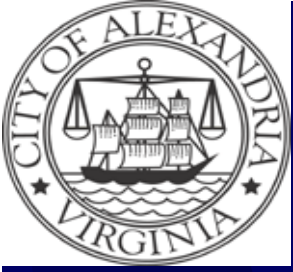
# Continuous Improvement Process

- Types of issues to be studied may include:
  - Policies and procedures
  - Organizational structure
  - Staffing
  - Workloads
  - Budget Resources
  - Outputs
  - Service levels
- T&ES and Fire will be first departments studied



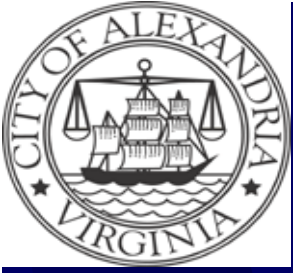
# Continuous Improvement Process

- T&ES contract awarded to Matrix Consulting Group
  - Scope to include Divisions of Administration, Engineering, Construction and Inspection, and Maintenance and Operations
  - Divisions of Transportation, Transit, and Environmental Quality will not be studied at this time
  - Report to be completed in early 2006



# Continuous Improvement Process

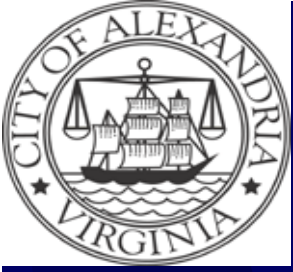
- Fire Department contract recently awarded to Management Advisory Group
  - Scope to include Fire Suppression, Fire Administration, Emergency Medical Services and Fire Communication
  - Code Enforcement and Emergency Management will not be studied at this point
  - Report to be completed in early 2006



# Continuous Improvement Process

- Second Fire Department contract previously awarded to TriData Group
  - To evaluate suitability of locations of existing fire stations
  - To assess the physical condition of existing Fire stations
  - To determine the need for any additional stations
  - To Study the optimum departmental staffing level to minimize overtime use
  - Report to be completed in late 2005

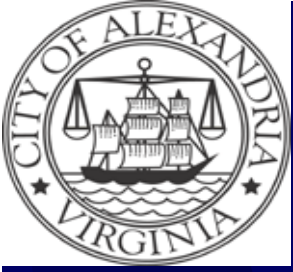




# Continuous Improvement Process

- Other departments will be studied
- Plan to improve performance measurement City-wide
  - Development of key City-wide performance measures
  - Improvement of Departmental performance measures
- CMO Citizen Advisory Committee





# Continuous Improvement Process

- These continuous improvement efforts may yield budget savings in the short term or in the long term
  - Too early to quantify many possible budget savings
- These improvements also may yield improved services at no extra cost



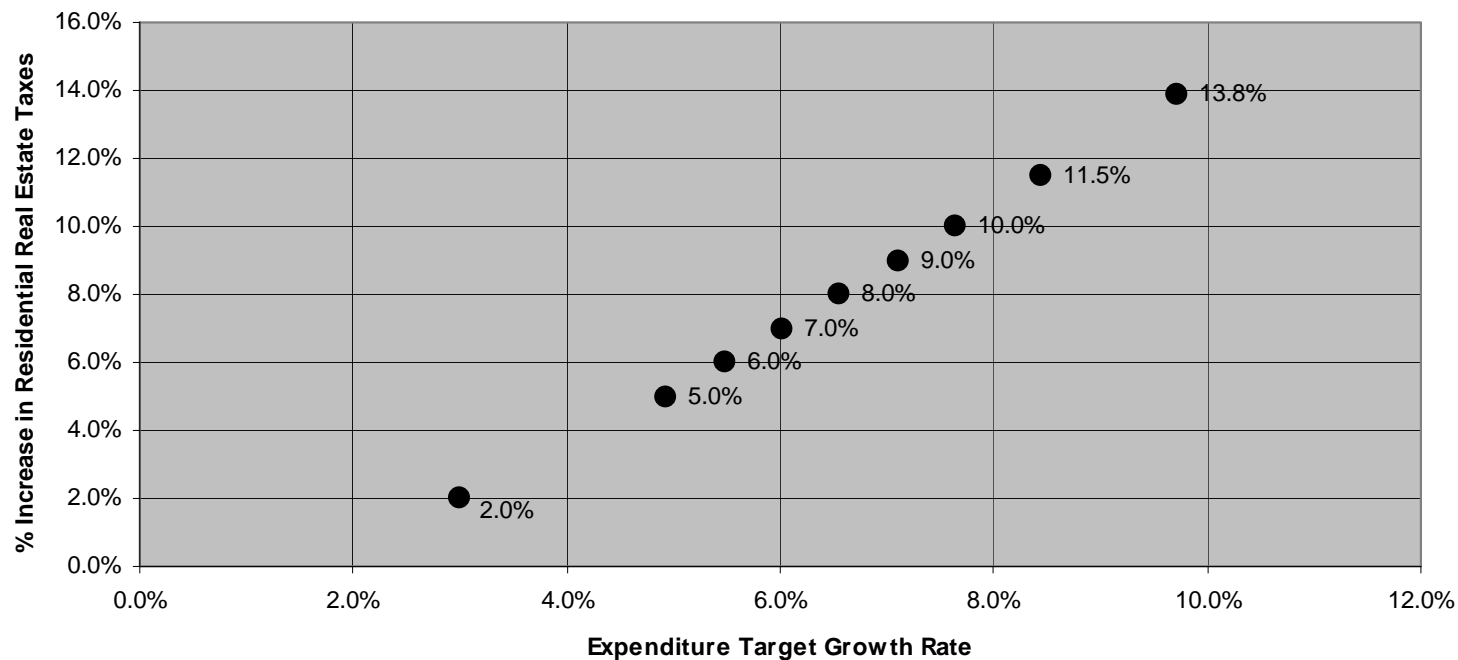
# Continuous Improvement Process

- Specific Expenditure Reductions Under Review
  - Departmental suggestions for \$0.7 M in specific savings under consideration by City Manager
  - Other saving proposals possible
  - Still a work in progress



# Information for Setting Budget Targets

Rate of Growth in Residential Real Estate Taxes (Existing Properties) Required  
at Various Target Rates of Growth in Expenditures





# Information for Setting Budget Targets

Scenario	A Full Funding All Requests	B Full Funding Current Services	C 10% RRE Tax Growth	D 9.0% Tax Growth	E 8.0% Tax Growth	F 7.0% RRE Tax Growth	G 6.0% RRE Tax Growth	H 5.0% RRE Tax Growth	I 3.0% Exp. Growth
Growth in Exp. %	9.7%	8.5%	7.6%	7.1%	6.6%	6.0%	5.5%	4.9%	3.0%
Growth in Ave. Res. R.E. Taxes	13.8%	11.5%	10.0%	9.0%	8.0%	7.0%	6.0%	5.0%	2.0%
RE Tax Rate Reduction	-3.6	-5.4	-6.5	-7.3	-8.1	-8.9	-9.6	-10.4	-12.7
% of Current Services not Funded	0%	0%	1.1%	1.9%	2.6%	3.4%	4.2%	5.0%	7.4%
\$ reduction to Current Services required	\$0	\$0	\$5.5 M	\$9.3 M	\$13.1 M	\$16.8 M	\$20.6 M	\$24.4 M	\$35.8 M
\$ available for Disc. Supps.	\$6.0 M	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0



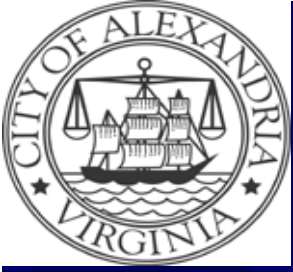
# Information for Setting Budget Targets

## ● Possible Strategies

- Postpone discretionary program increases
- Reduce COLA
- Set health insurance cost containment objective
- Further diversify revenues
- Freeze local funding for grant supported programs
- Make targeted program/service level reductions
- Reduce/Defer CIP expenditures
- Issue more bonds for CIP expenditures

# Hypothetical Reduction Options

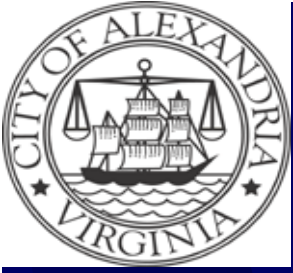
Scenario	A Full Funding All Request s	B Full Funding Current Services	C 10% RRE Tax Growth	D 9.0% Tax Growth	E 8.0% Tax Growth	F 7.0% RRE Tax Growth	G 6.0% RRE Tax Growth	H 5.0% RRE Tax Growth	I 3.0% Exp. Growth
Expenditure Growth Target	9.7%	8.5%	7.6%	7.1%	6.6%	6.0%	5.5%	4.9%	3.0%
Eliminate Disc. Prog. Increases									
City	NA	-\$5.2 M	-\$5.2 M	-\$5.2 M	-\$5.2 M	-\$5.2 M	-\$5.2 M	-\$5.2 M	-\$5.2 M
Schools	NA	-\$2.9 M	-\$2.9 M	-\$2.9 M	-\$2.9 M	-\$2.9 M	-\$2.9 M	-\$2.9 M	-\$2.9 M
CIP	NA	-\$0.8 M	-\$0.8 M	-\$0.8 M	-\$0.8 M	-\$0.8 M	-\$0.8 M	-\$0.8 M	-\$0.8 M
Eliminate Planned Increase in Cash Cap.	NA	NA	-\$4.4 M	-\$9.3 M	-\$10.0 M	-\$10.0 M	-\$10.0 M	-\$10.0 M	-\$10.0 M
Reduce 3% COLA	NA	NA	NA	NA	-\$3.0 M	-\$6.8 M	-\$9.6 M	-\$9.6 M	-\$9.6 M
Other Op. Program and/or CIP Reductions	NA	NA	NA	NA	NA	NA	-\$1.0 M	-\$4.7 M	-\$17.7 M
Reduction required from Requests	\$0	-\$8.9 M	-\$14.4 M	-\$18.2 M	-\$21.9 M	-\$25.7 M	-\$29.5 M	-\$33.2 M	-\$46.2 M



# Budget Process Changes

- October 4 Memo to Council Outlines Changes
  - To Budget Documents
  - To Budget Work Sessions
  - To Budget Memos
  - To BFAAC Report
  - To Add-Delete Process

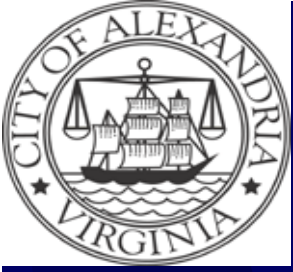




# Budget Process Changes

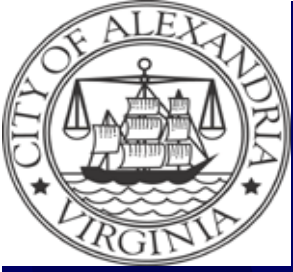
- FY 2007 Budget Schedule
  - November 9 – Council establishes budget target levels for FY 2007
  - January 31 – School Board finalizes operating budget
  - February 14 – City Manager submits proposed Operating Budget and CIP
  - Mid Feb to Mid March – Work sessions with City Staff





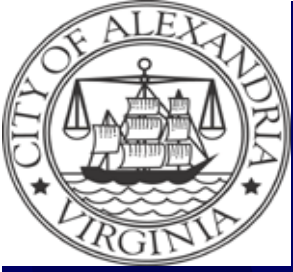
# Budget Process Changes

- March 18 – Effective Tax Rate Public Hearing
- Late March – Budget Public Hearing
- Joint School Board/City Council Work Session
- March 30 – BFAAC report delivered
- April 3 – BFAAC work session
- April 17 – Preliminary Add-Delete Work Session
- April 24 – Budget and Tax Rate Adoption by Council



# Conclusion

- All estimates are preliminary and subject to change
  - New revenue estimates will be issued with proposed budget in February
  - Cost to maintain current services will change
  - CIP program under review
  - All elements of budget still under review by City Manager, School Superintendent and School Board



# Conclusion

- City Staff committed:
  - To provide a budget that meets targets
  - To inform Council of impact of meeting those targets
  - To provide a “cafeteria menu” of options on both the revenue and expenditure sides of the budget